WESTCOAST ENERGY INC.

ANNUAL REPORT

1997

This Annual Report depicts our navigation of a course that addresses the challenges and opportunities created by a less regulated, more competitive energy marketplace, and our determination to emerge as one of the few big North American winners in the global energy industry. We are flexible in our response to changing conditions and are confident that we are on course to meet our corporate goal of providing our customers with superior energy services value.

CONTENTS

Headquartered in Vancouver, British Columbia, Canada, Westcoast Energy Inc. is an integrated energy services company with assets of $10 billion. ¶ Westcoast Energy's natural gas system, located primarily in British Columbia, gathers, processes and transports more than 1.8 billion cubic feet of natural gas per day to markets in British Columbia, Alberta and the Pacific Northwest United States. ¶ The Company is currently developing a west-to-east pipeline transportation network to provide a new outlet for western Canadian natural gas, and is also creating new infrastructure and additional supply options for markets in Atlantic Canada and New England. ¶ Westcoast Energy owns and operates natural gas distribution and transportation businesses — Union Gas in Ontario, Centra Gas in Manitoba, Alberta and British Columbia and Pacific Northern Gas in British Columbia — which deliver natural gas to more than 1.4 million customers. The Company owns and operates underground natural gas storage facilities which supply energy market participants in Ontario, Quebec and the United States. ¶ The Company's non-regulated energy services business, Union Energy, provides energy equipment sales, rentals, installation and maintenance, as well as financing and energy management, procurement and sales to customers in Canada. ¶ Westcoast Energy has a 50% interest in Engage Energy which marketed annual volumes in 1997 of 2,525 billion cubic feet of natural gas and 31 million megawatt hours of electric power. ¶ Westcoast Energy is one of Canada's fastest growing independent power producers, with more than 400 megawatts of electric power in operation or under construction. ¶ The Company is using its technical and commercial skills to develop energy projects in international markets which strictly balance expected investment return against risk.

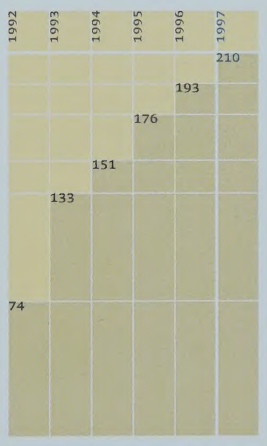
FINANCIAL HIGHLIGHTS

We have continued our efforts to increase the value we bring to our shareholders:

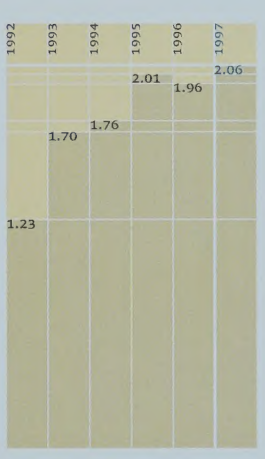
- Our net income applicable to common shares increased to $210 million in 1997, up 9% from 1996.
- During 1997, Westcoast Energy's common share price rose from $22.95 to $33.00 (TSE).
- In the third quarter of 1997, we raised our quarterly common share dividend from $0.29 to $0.31, an increase of 7% and the fourth dividend increase in three years.
- Our share price growth, combined with an annual common share dividend of $1.20, resulted in a total 1997 shareholder return of 49%.
- In 1997, we returned 58% of net income applicable to common shares in the form of dividends, leaving 42% of 1997 earnings to finance new investments.

For the years ended December 31 ($million)	1997	1996	1995
FINANCIAL			
Operating revenues	7,312	4,875	4,184
Net income	238	212	194
Net income applicable to common shares	210	193	176
Operating cash flow	522	543	384
Total assets	10,075	9,066	8,451
Per common share *(dollars)*			
– Earnings	2.06	1.96	2.01
– Dividends	1.20	1.05	0.93

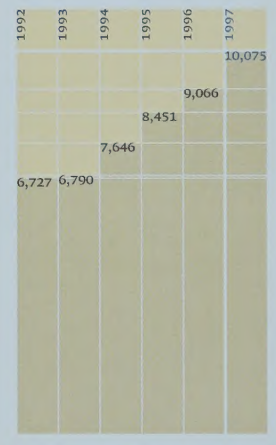
For the years ended December 31 (billion cubic feet)	1997	1996	1995
VOLUMES			
Westcoast Energy Pipeline Division	688	667	647
Foothills Pipe Lines	935	927	920
Empire State Pipeline	98	101	114
Ontario Distribution	1,220	1,137	1,166
Other Distribution	163	169	165
	3,104	3,001	3,012



NET INCOME APPLICABLE TO COMMON SHARES
(continuing operations)
($million)



EARNINGS PER COMMON SHARE
(continuing operations)
(dollars)

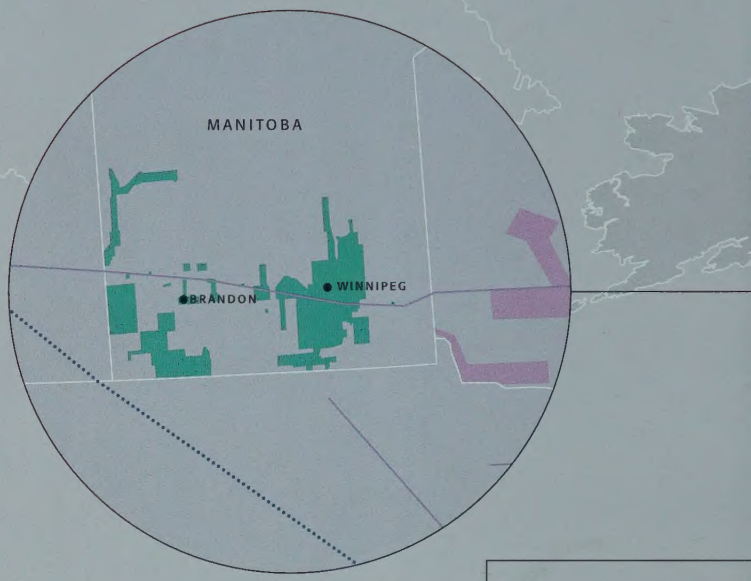


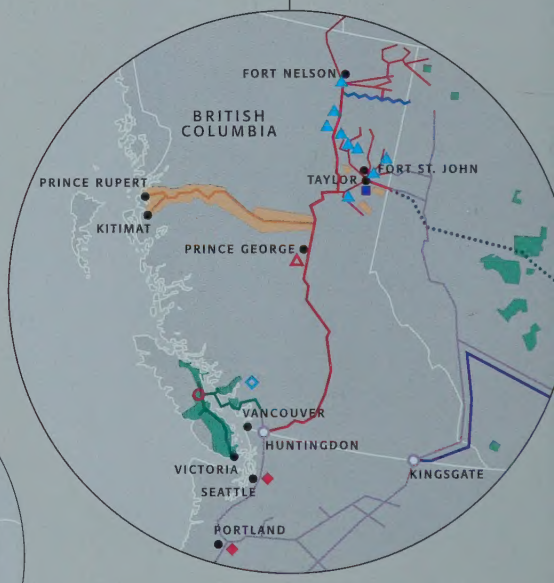
TOTAL ASSETS
($million)

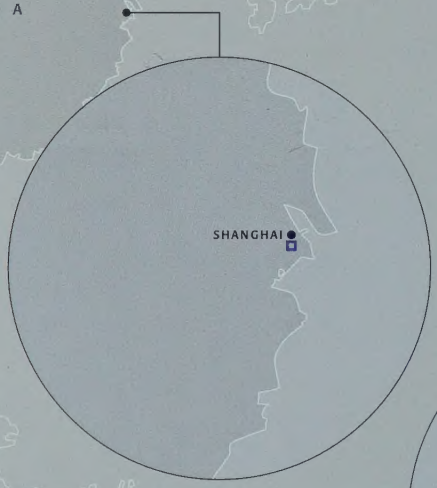
WESTCOAST ENERGY SYSTEMS AND STRATEGIC PIPELINE CONNECTIONS

Westcoast Energy has operations across North America, and in select international locations, in the gathering, processing, transportation, storage and distribution of energy and energy products and services. We are focusing our efforts on optimizing the operation of our existing assets, creating new infrastructure and services where markets demand and providing shareholders with an appropriate financial return.

With the convergence of natural gas and electricity, and consumer demand for choice, we will continue to meet our customers' needs by developing solutions using a range of energy sources and services.



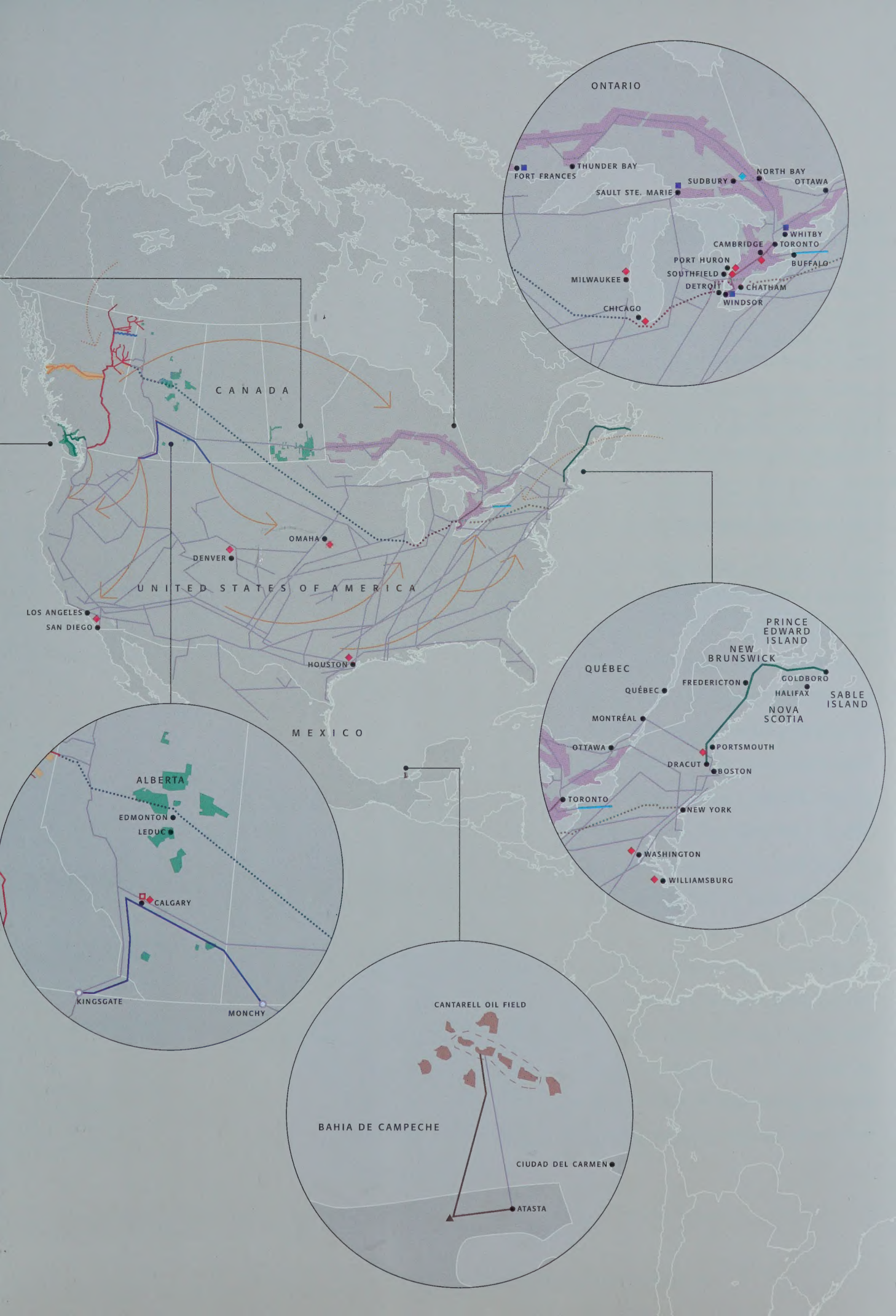




- Westcoast Energy Pipeline and Field Services Divisions
- Pacific Northern Gas Pipeline
- Pacific Northern Gas Service Area
- Foothills Pipe Lines
- Centra Gas British Columbia
- Centra Gas Service Area
- Union Gas Transmission Line
- Union Gas Service Area
- Empire State Pipeline
- Maritimes & Northeast Pipeline
- Connecting Pipelines
- Cantarell Pipeline
- Cantarell Nitrogen Production Plant
- Gas Processing Plant
- Power Generation
- Engage Energy
- Liquefied Natural Gas Storage Facility
- Natural Gas Exchange
- Sulphur Products Plant
- Export Meter Station
- Fort Nelson Powerline
- Gas Flow
- Future Gas Flow

PROPOSED PROJECTS

- McNab Liquefied Natural Gas Project
- Alliance Pipeline Project
- TriState Pipeline Project
- Millennium West Pipeline Project
- Millennium Pipeline Project
- Island Cogeneration Project
- Shanghai Power Project
- Eastern Gas Pipeline Project


ONTARIO
THUNDER BAY
FORT FRANCES
SUDBURY
NORTH BAY
OTTAWA
SAULT STE. MARIE
WHITBY
CAMBRIDGE
TORONTO
BUFFALO
PORT HURON
SOUTHFIELD
DETROIT
CHATHAM
WINDSOR
MILWAUKEE
CHICAGO
CANADA
OMAHA
DENVER
UNITED STATES OF AMERICA
LOS ANGELES
SAN DIEGO
HOUSTON
MEXICO
PRINCE EDWARD ISLAND
NEW BRUNSWICK
QUÉBEC
FREDERICTON
GOLDBORO
HALIFAX
SABLE ISLAND
NOVA SCOTIA
QUÉBEC
MONTRÉAL
OTTAWA
PORTSMOUTH
DRACUT
BOSTON
TORONTO
NEW YORK
WASHINGTON
WILLIAMSBURG
ALBERTA
EDMONTON
LEDUC
CALGARY
KINGSGATE
MONCHY
CANTARELL OIL FIELD
BAHIA DE CAMPECHE
CIUDAD DEL CARMEN
ATASTA

CORPORATE HIGHLIGHTS

- Westcoast Energy finalized a multi-year incentive-based toll settlement, applicable January 1, 1997, to December 31, 2001, for its regulated natural gas gathering, processing and transmission operations, located primarily in British Columbia. This settlement represents the initial step towards a light-handed approach to regulation for the Company's National Energy Board (NEB) regulated operations.

- Westcoast Energy obtained final regulatory approval for the Canadian portion of the Maritimes & Northeast Pipeline Project, a 1,040-kilometre pipeline to transport more than 500 million cubic feet of natural gas per day from offshore Nova Scotia to markets in Atlantic Canada and the northeast United States. The Company has a 37.5% interest in the project, which is expected to cost in excess of $1 billion. Construction will begin in 1998 to meet the pipeline's expected November 1999 in-service date.

- Westcoast Energy acquired a 14.5% interest in the proposed Alliance Pipeline Project, a 3,100-kilometre pipeline to transport western Canadian natural gas to Chicago, Illinois. The pipeline, expected to be in service in the second half of 2000, would originate near Fort St. John, British Columbia, extend through Alberta to Chicago, Illinois, and join the North American pipeline grid, transporting 1.3 billion cubic feet of natural gas per day. The proposed project also includes a natural gas liquids extraction facility to be located at Joliet, Illinois. The project is expected to cost in excess of $4 billion.

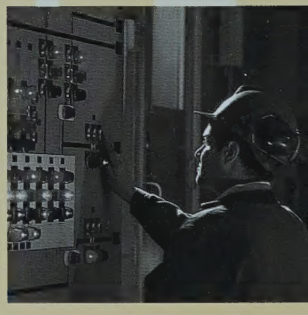
- Westcoast Energy announced its participation in the proposed TriState Pipeline Project, designed to transport natural gas from Chicago to markets in Michigan and Ontario and for further transport, through connecting pipelines, to markets in the eastern United States. The proposed pipeline would originate near Joliet, Illinois, and be routed through Indiana and Michigan to Union Gas' pipeline system and storage facilities in Ontario. The pipeline, expected to be in service in November 2000, would have a minimum capacity of 300 million cubic feet of natural gas per day, and could be economically expanded to one billion cubic feet per day. The Company has a 33.3% interest in the project.

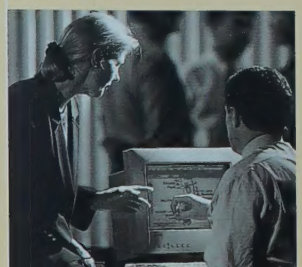
- Westcoast Energy began assessment of a 75-kilometre pipeline in Ontario, from Union Gas' Dawn compressor station to Lake Erie. The $160-million proposed Millennium West Pipeline Project, together with a pipeline proposed by TransCanada PipeLines Ltd., would transport 700 million cubic feet of natural gas per day to the proposed Millennium Pipeline Project. The proposed Millennium Pipeline Project is a 611-kilometre pipeline to transport 700 million cubic feet per day of western Canadian and United States natural gas from southern Ontario to eastern United States markets. The Company has a 21% interest in the $950-million project, which is currently scheduled to be in service in late 1999. This project represents the final link to move western Canadian natural gas from Chicago to New York and other eastern United States markets.

- Westcoast Energy finalized the merger of the energy merchant and management services operations of its subsidiary Westcoast Gas Services with the energy-marketing arm of The Coastal Corporation. The merger formed Engage Energy, a major marketer of energy and energy services in North America. In 1997, Engage Energy marketed annual volumes of 2,525 billion cubic feet of natural gas and 31 million megawatt hours of electric power.

- Westcoast Energy proposed a $120-million liquefied natural gas (LNG) project to be located near Port Mellon, British Columbia. The McNab LNG Project is a safe, cost-effective solution to serve natural gas requirements during peak demand periods of the winter heating season.

- Westcoast Energy's Pipeline Division transported 688 billion cubic feet of natural gas in 1997, record volumes for the seventh consecutive year.





GAS DISTRIBUTION

- Westcoast Energy amalgamated its two Ontario natural gas distribution businesses, Union Gas and Centra Gas Ontario, effective January 1, 1998. The merged company, which is known as Union Gas, operates the combined natural gas distribution system serving more than one million residential, commercial, industrial and institutional customers in 400 communities in southwestern, northern and eastern Ontario. Union Gas also provides natural gas storage and transportation services for energy market participants in Ontario, Quebec and the United States.
- Westcoast Energy launched its retail energy services business through its subsidiary Union Energy, to offer energy equipment sales, rentals, installation and maintenance, as well as financing and energy management, procurement and sales to customers in Canada.

POWER GENERATION

- Westcoast Energy's subsidiary, Westcoast Power, achieved its second consecutive year of reliability rates in excess of 98%. Westcoast Power continued the efficient operation of its existing assets, while contributing development expertise to the Company's international power-related projects.

INTERNATIONAL AND OTHER

- Westcoast Energy has a 20% interest in the international consortium that was awarded a 15-year contract by the exploration and production arm of Mexico's national oil company. The consortium will build, own and operate the Cantarell Nitrogen Project, a $1.4-billion nitrogen production and delivery complex near Ciudad del Carmen, in the State of Campeche, Mexico. Westcoast Energy will contribute to project design and will jointly operate the facilities, which are expected to begin service in 2000.
- Westcoast Energy further developed joint venture agreements to construct China's first Canadian-led power plant. The Company will own 32.5% of the proposed Shanghai Power Project, a $70-million, 50-megawatt power plant at a steel-making complex in Shanghai.
- Westcoast Energy acquired an additional interest in the power generation and transmission facilities of a copper and gold mine in Irian Jaya, Indonesia. The Company has a 43% interest in P.T. Puncakjaya Power, which owns and operates power generation and transmission facilities valued at approximately $800 million.

STRATEGIC BUSINESS	OPERATING UNITS		ASSETS
TRANSMISSION AND SERVICES *Operates natural gas gathering, processing and transmission businesses. Transports natural gas through strategic pipeline connections on the North American pipeline grid, and provides energy marketing and related services.* Operating Revenues $4,791 million	Westcoast Energy Pipeline and Field Services Divisions (100% owned) Sulphur Products (32% interest) Westcoast Gas Services (100% owned) NGX Canada (100% owned) St. Clair Pipelines (1996) (100% owned) Engage Energy (50% owned) Empire State Pipeline (50% owned) Foothills Pipe Lines (50% owned)	Maritimes & Northeast Pipeline (37.5% owned) **PROPOSED** McNab Liquefied Natural Gas (LNG) Project (100% interest) Alliance Pipeline Project (14.5% interest) TriState Pipeline Project (33.3% interest) Millennium West Pipeline Project (100% interest) Millennium Pipeline Project (21% interest)	Westcoast Energy's Pipeline and Field Services Divisions operate an integrated natural gas system from the Northwest Territories to the Canada-United States border which serves markets in British Columbia, Alberta and the Pacific Northwest United States. The system includes approximately 5,700 kilometres of natural gas pipelines and five processing plants. 1997 Pipeline Division volumes: 688 Bcf Westcoast Energy operates a sulphur products facility at Prince George, British Columbia, which produces sulphuric acid, sulphur dioxide and alum for pulp and paper and fertilizer industries in western Canada and the United States.
GAS DISTRIBUTION *Serves more than 1.4 million residential, commercial, industrial and institutional customers in Canada with cost-effective, safe and reliable natural gas service.* Operating Revenues $2,396 million	Union Gas* (100% owned) * includes Centra Gas Ontario Union Energy (100% owned) Centra Gas Manitoba (100% owned) Centra Gas Alberta (100% owned)	Centra Gas British Columbia (100% owned) Pacific Northern Gas (41% owned, 100% of voting shares) Trillium Energy Canada Trillium USA (100% owned)	Union Gas distributes natural gas to 1,041,000 residential, commercial, industrial and institutional customers in Ontario. Union Gas also provides natural gas storage and transportation services
POWER GENERATION *Builds and operates facilities to generate thermal and electrical energy.* Operating Revenues $109 million	Westcoast Power (100% owned)	**PROPOSED** Island Cogeneration Project (40% interest)	Westcoast Energy has interests in five natural gas fired cogeneration facilities in British
INTERNATIONAL AND OTHER *Employs Westcoast Energy's technical and commercial skills to develop energy infrastructure projects and financial services in select markets.* Operating Revenues $16 million	Westcoast Energy International (100% owned) P.T. Puncakjaya Power (43% owned) Westcoast Capital (100% owned)	Cantarell Nitrogen Project (20% owned) **PROPOSED** Shanghai Power Project (32.5% interest) Eastern Gas Pipeline Project (50% interest)	P.T. Puncakjaya Power owns and operates power generation and transmission facilities, valued at $800 million, at a copper and gold mine in Irian Jaya, Indonesia.

CORPORATE PROFILE

Westcoast Gas Services operates four non-NEB regulated natural gas processing plants in northeast British Columbia which gather and process natural gas for transportation on the natural gas pipeline system operated by Westcoast Energy's Pipeline Division.

NGX Canada provides customers with electronic natural gas trading and information services, similar to a commodity exchange.
1997 volumes traded: 895 Bcf

St. Clair Pipelines (1996) owns and operates pipelines linking Union Gas' storage and transportation facilities in Ontario with pipeline and storage facilities in the United States.

Engage Energy provides natural gas and electricity marketing, risk management and energy management services to customers across North America.
1997 sales: 2,525 Bcf and 31 million MW hours

Empire State Pipeline is a 251-kilometre pipeline which indirectly connects Union Gas' transportation and storage facilities in Ontario to markets in upper New York State.
1997 volumes: 98 Bcf

Foothills Pipe Lines transports approximately one-third of total Canadian natural gas volumes destined for United States markets, through 927 kilometres of pipeline.
1997 volumes: 935 Bcf

The Maritimes & Northeast Pipeline Project is a 1,040-kilometre pipeline to transport more than 500 million cubic feet of natural gas per day from offshore Nova Scotia to markets in Atlantic Canada and the northeast United States. The project is expected to cost in excess of $1 billion.

Westcoast Energy's proposed McNab LNG Project in British Columbia is a $120-million liquefied natural gas storage facility to supply an additional 300 million cubic feet of natural gas per day during peak-day demand periods of the winter heating season.

The proposed Alliance Pipeline Project is a 3,100-kilometre pipeline from Fort St. John, British Columbia, to Chicago, Illinois, which will transport 1.3 billion cubic feet of natural gas per day to the North American pipeline grid. The project is expected to cost in excess of $4 billion.

The proposed TriState Pipeline Project will transport natural gas from Chicago to markets in Michigan and Ontario and for further transport, through connecting pipelines, to markets in the eastern United States.

The $160-million proposed Millennium West Pipeline Project, a 75-kilometre link in Ontario from Union Gas' Dawn compressor station to the shore of Lake Erie, will transport 700 million cubic feet of natural gas per day to the proposed Millennium Pipeline Project.

The $950-million proposed Millennium Pipeline Project is a 611-kilometre pipeline to transport 700 million cubic feet per day of western Canadian and United States natural gas from southern Ontario to eastern United States markets.

for energy market participants in Ontario, Quebec and the United States.
1997 volumes: 1,220 Bcf *

Union Energy offers energy equipment sales, rentals, installation and maintenance, as well as financing and energy management, procurement and sales to customers in Canada.

Centra Gas operates natural gas distribution and transportation businesses in Manitoba, Alberta and British Columbia which serve 349,000 customers.
1997 volumes: 124 Bcf

Pacific Northern Gas operates a natural gas transportation and distribution business in British Columbia which serves 38,000 customers.
1997 volumes: 39 Bcf

Trillium Energy Canada and Trillium USA develop, own and operate natural gas for vehicles (NGV) fuelling stations in Canada, the United States and Mexico.

Columbia and Ontario with a 1997 combined capacity of 372 MW, as well as a 220-kilometre electric powerline from

Rainbow Lake, Alberta, to Fort Nelson, British Columbia.

The proposed Island Cogeneration Project is a $200-million, 240-MW natural gas fired cogeneration plant to

be constructed at a pulp and paper mill near Campbell River, British Columbia.

Westcoast Capital provides energy-related financing packages for residential, commercial and industrial customers.

Westcoast Energy is a member of the international consortium that was awarded a 15-year contract to build, own and operate the Cantarell Nitrogen Project, a $1.4-billion nitrogen production and delivery complex near Ciudad del Carmen, Mexico.

The Shanghai Power Project is a proposed $70-million, 50-MW power plant project at a steel-making complex in Shanghai, China.

The proposed $400-million, 747-kilometre Eastern Gas Pipeline Project will transport natural gas from southeast Australia to Sydney and to markets along the pipeline route.

To provide superior energy services value to our customers. ¶ The energy industry is being driven by the convergence of natural gas and electricity and our customers' insistence on choice. Deregulation has created greater value for consumers and greater competition for Westcoast Energy and its operating businesses. ¶ To successfully compete in this new marketplace we will take on increased risk in our core asset-based operations, giving us the opportunity for higher returns. We will grow our energy product offerings and our financial and information services. We will develop alliances and partnerships that make us a dominant player in the business areas and geographies in which we operate. ¶ We are not aiming to succeed, we are determined to succeed.

GOAL

Westcoast Energy has several core objectives to achieve its goal.

■ *To build on the foundation of our core asset-based businesses.*

"We will improve the operating efficiency of our existing assets and build new low-cost systems where market opportunities exist. This will serve our customers better and return greater value to our shareholders. We will be known for our safety, reliability and expertise, and will become the partner of choice for energy transportation and delivery projects across North America."

Arthur Willms, *President and Chief Operating Officer*

■ *To establish new energy-related businesses.*

"In the deregulated energy market, we will respond to new opportunities through the addition of new services and products in a growing spectrum of business activities. From energy marketing to customer information systems, retail products to financing, we will meet the demands of our customers – residential, commercial and industrial."

Michael Phelps, *Chairman and Chief Executive Officer*

■ *To tap the energies and talents of our employees.*

"Westcoast Energy has a deep pool of skill and expertise. We offer rewarding work and the opportunity to grow within the organization while learning leadership skills. We will draw new team members to Westcoast Energy with challenging, exciting work in a growth-oriented industry."

Kenneth Rekrutiak, *Senior Vice President and Chief Administrative Officer*

■ *To increase our presence and involvement in key aspects of the electric power industry.*

"Natural gas and electric power are becoming commodity energy options. We will increase our interests in electric power to supply our customers' total energy requirements. We will look for acquisitions and alliances in electric power services to capture a larger share of the energy market."

Michael Stewart, *Executive Vice President, Business Development*

■ *To achieve robust financial returns.*

"Westcoast Energy is focused on succeeding in an increasingly competitive, deregulated energy marketplace. We are committed to providing our shareholders with an above-average financial return over the long term."

Graham Wilson, *Executive Vice President and Chief Financial Officer*

Following our record earnings in 1996, we have delivered another year of solid results. We believe that we are on course to reach our $3.00 earnings per share target by the year 2001.

Westcoast Energy's Corporate Leadership Team is led by Michael Phelps, Chairman and Chief Executive Officer, Westcoast Energy Inc.

- Net income applicable to common shares was $210 million, compared with $193 million in 1996.
- Earnings per common share were $2.06, compared with $1.96 the previous year.
- The common share dividend increased by 7% in the third quarter, the fourth increase in three years.
- Total shareholder return, with dividends, was 49%.

Westcoast Energy is performing well as we continue our evolution from a largely regulated corporation to a more market-based enterprise.

As a company, we now deliver more products and services to more customers in more markets, here and abroad, than ever before. Major projects such as the Maritimes & Northeast Pipeline Project and the Cantarell, Mexico, Nitrogen Project are moving into the construction phase. We continue to form sound strategic partnerships and alliances with strong and experienced corporations to advance our growth in the energy services sector. We have developed new business entities in retail energy services, energy marketing and trading, and financing. Our people are adapting to the ongoing process of regulatory change and meeting the escalating demands of our varied and complex external markets. And I believe we are living up to the increasing demands of our customers who expect choice, variety, responsiveness and, above all, value for the dollars they spend on their energy requirements.

Uncertainties exist, and always will, in the global economy in which we operate. This was amply demonstrated in 1997 by a generally warmer weather pattern in major North American markets that dramatically affected natural gas sales. In addition, we experienced the continuing push for less regulation that is driving a restructuring of our business, as well as the economic uncertainty in Asia. We believe we have developed the goal and the strategies that will enable us to respond to this changing world economy.

This Annual Report to shareholders chronicles, in considerable detail, the range and scope of Westcoast Energy's activities — and our financial results.

I would like to focus my remarks on:

- the new markets in which we must compete;
- our corporate goal and the strategies and activities for achieving success; and
- our future.

OUR MARKETS

Behind the push for less regulation in our industry is the emergence of a North American marketplace that demands choice, innovation, quality and cost effectiveness. Deregulation is also encouraging the convergence of the traditional natural gas business with the electric power industry — and bringing to the forefront new service providers including telecommunications companies, financial institutions, software developers and consumer product retailers.

This is a fundamental change to our industry. The traditional, regulated utilities with their substantial assets in infrastructure — the companies that actually process and deliver energy — are now complemented by a new wave of non-regulated, competitively focused companies that are creating and offering an increasingly wide range of energy services.

These changes are being driven by the end-user. Consumers, whether residential, commercial or industrial, are in charge. It is this dynamic that is shaping our markets — and will shape our business response, now and in the future. And the stakes are high. The annual market for end-use products and services in North America's natural gas and electric power business is estimated to be in the order of $250 billion.

OUR CORPORATE GOAL

At Westcoast Energy, we are aggressively responding to this new marketplace by the relentless pursuit of our corporate goal. We are determined *to provide superior energy services value to our customers.* Our strategies for achieving this goal are:

- to build on our traditional strengths in energy infrastructure;
- to establish new energy-related businesses;
- to increase our presence in key aspects of the electric power industry;
- to tap the energies and knowledge of our employees; and
- to achieve above-average financial returns over the long term.

We are competing in a customer-driven, customer-focused business. What will distinguish us from our competition will be the comprehensive portfolio of products and quality customer service we offer, as well as our price, expertise, safety and reliability.

We intend to maximize the returns from our assets in both natural gas and electric power infrastructure. This will be done

through internal efficiencies and by seeking changes in regulation that will encourage and reward efficiency and performance. And we are extremely active in pursuing and developing new markets in Canada, and internationally, for our growing menu of energy products and services.

Our business activities are detailed elsewhere in this Annual Report. I will, however, briefly highlight our efforts to meet our key objectives.

■ *We will seek regulatory changes that help customers and reward our operating performance.*

In western Canada, we have completed a multi-year incentive-based toll settlement with our customers, approved by the National Energy Board (NEB), centred on a new performance-based tolling arrangement. This gives natural gas producers greater flexibility and the option of longer-term toll certainty, and allows us to benefit from cost savings and the generation of revenues from new services. This settlement links some of our tolls with natural gas prices, aligning our interests with those of our customers. This is an innovative toll design and a clear indication of our desire to move towards light-handed regulation.

■ *We will create new businesses to meet our customers' needs and demands.*

In 1997, Union Energy began to compete in the retail energy services sector by providing sales, rentals, installation and maintenance of energy equipment such as furnaces, fireplaces, water heaters and air conditioners; financing; and energy management, procurement and sales in Canada. In early 1998, we formed Enlogix Inc. to provide a broad range of energy information services to utilities, municipalities and other non-regulated energy service providers. Its activities will include automated meter reading services, customer information services and information-based services including the capabilities necessary to market energy products and services through electronic commerce. We will continue to respond to new opportunities in energy services where we can build upon our established skills and customer relationships.

■ *We will participate in the development of new markets.*

Our concentrated efforts in Canada's East Coast region resulted in the approval of the Maritimes & Northeast Pipeline Project which will open new markets for Canadian natural gas in Nova Scotia, New Brunswick and the northeast United States. We are pursuing the natural gas distribution rights in these two Canadian provinces with Irving Oil. During

Corporate Leadership Team members (left to right): Michael Stewart, Executive Vice President, Business Development, Westcoast Energy Inc.; Robert Reid, President and Chief Executive Officer, Union Gas Limited; Graham Wilson, Executive Vice President and Chief Financial Officer, Westcoast Energy Inc.; Otto Lang, President and Chief Executive Officer, Centra Gas Manitoba Inc.; David Unruh, Senior Vice President, Law and Corporate Secretary, Westcoast Energy Inc.

Corporate Leadership Team members (left to right): Kenneth Rekrutiak, Senior Vice President and Chief Administrative Officer, Westcoast Energy Inc.; Allan Edgeworth, President, Westcoast Energy Pipeline Division; Irvine Koop, President, Westcoast Energy Field Services Division; Arthur Willms, President and Chief Operating Officer, Westcoast Energy Inc.; James Anderson, Senior Vice President, Strategic Development, Westcoast Energy Inc.

the year we also acquired a significant interest in the Alliance Pipeline Project, and jointly initiated the Millennium Pipeline and TriState Pipeline projects which will create a west-to-east natural gas pipeline transportation network. This network will contribute to the maximum utilization of our existing infrastructure in British Columbia and Ontario, and provide a new outlet for western Canadian natural gas.

■ *We will increase our international presence.*

In 1997, our international project development recorded significant successes. We have a leadership role in the Cantarell nitrogen production and delivery project in Mexico, we increased our interest in the existing Indonesian power generation facility and signed joint venture contracts to advance a power project in China. We will continue our development efforts in geographic areas where we can develop natural gas and electric power infrastructure and energy services opportunities and generate sound financial returns.

■ *We will continue to form alliances with strong and successful partners to advance our growth.*

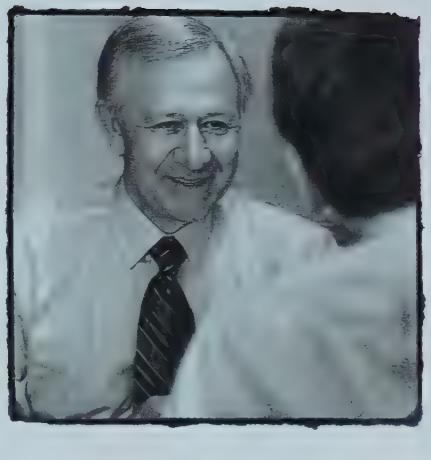
We have created partnerships with key companies, including the formation of Engage Energy with The Coastal Corporation, the development of the Maritimes & Northeast Pipeline Project with Mobil Oil Canada and Duke Energy and our partnership with four international companies in the consortium for the Cantarell Nitrogen Project in Mexico. These partnerships allow us to build on each other's skills, experience and market knowledge.

While I am pleased with our achievements, I also want to add the cautionary note that we face some major challenges and potential risks.

■ The capital required to fully participate in our new opportunities is substantial. We will have to focus on only those opportunities that fit our corporate goal and that will generate the required return to shareholders.

■ Gas price volatility will continue to influence the returns from many of our regulated assets. It will also affect the profitability of Engage Energy's activities in North America.

■ The competitive pressures and risks in both the regulated and non-regulated parts of our business are increasing. We will need to determine how to prosper in a less regulated environment, remain cost competitive without reducing the service capabilities that differentiate us from others, and identify and manage the risk aspects of each of our businesses.



OUR FUTURE

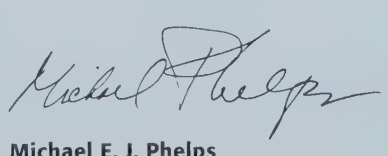
Westcoast Energy is a growing, diverse enterprise. The Company and its people have a solid reputation, hard-won over many decades, based on the prudent management of our natural gas gathering, processing, transportation, storage and distribution assets and the development of an efficient, reliable infrastructure. These assets will continue to provide a platform for developing new markets and new business ventures through the application of traditional strengths to new opportunities.

Our commitment is to our corporate goal: to provide superior energy services value. It provides direction, and we intend to remain on the course we have set for ourselves.

Another important factor that comes into play as competition for customers intensifies is the degree of trust the public has in companies such as ours. Yes, customers want choice and low prices — but I think they want a reliable and respected company to be the one that provides the value they demand. Westcoast Energy and its operating businesses are fully aware of that desire for trust and are working hard to demonstrate to our customers, our shareholders and the communities in which we work and live that we deserve their support.

In closing, I would like to thank all our employees for their dedication to reducing operating costs, providing quality customer service and embracing innovation. I would like to thank our investors for their continuing commitment. And, I would like to thank our customers who have responded positively to our products and services through their support.

I would also like to pay tribute to Derek H. Parkinson who will retire from the Board of Directors at our Annual Meeting. He has been a part of our growth and success since 1982 and a member of the Board since 1983. We thank him for his dedication and service, and wish him well in the coming years.



Michael E. J. Phelps
Chairman and Chief Executive Officer
March 6, 1998

	ONE	TWO	THREE	FOUR
QUESTIONS	What is Westcoast Energy's dividend policy?	Is Westcoast Energy's earnings per share target still $3.00 by the year 2001?	How significant is approval of the Maritimes & Northeast Pipeline Project?	What are Westcoast Energy's international objectives?
ANSWERS	We will continue to provide our shareholders with a competitive common share dividend that reflects a dividend payout ratio (the proportion of net income paid in the form of common share dividends) comparable to other pipeline and energy services companies. Our common share dividend is currently $0.31 per quarter ($1.24 per year) – representing a payout of approximately 60% of 1997 earnings per common share. Based on a 1997 year-end share price of $33.00, the current dividend yield is about 3.8%. Over the past five years, our annual common share dividend has increased from $0.82 in 1993 to an indicated level of $1.24 in 1998, an average compound annual growth of more than 8.5%. Moving forward, our dividend policy will continue to take into account our earnings performance and capital requirements, while remaining competitive with our peers.	Increasing shareholder value remains our top priority. This $3.00 earnings per share target is one of our most measurable goals. While we faced the challenges of decreased allowed rates of return in our utility businesses and increased expenditures for our new energy services businesses and development projects, our 1997 earnings per share – on a weather normalized basis and prior to the one-time 1996 adjustment for restructuring of the Pipeline and Field Services Divisions – were higher than in 1996. The advancement of existing projects, and a continued focus on performance-based regulation and operational cost management, is intended to allow us to achieve our $3.00 earnings per share target on schedule.	Approval of this pipeline project on Canada's East Coast is a significant part of our strategy to create new infrastructure and additional supply options for markets in Atlantic Canada and New England. In addition to an acceptable rate of return on the pipeline investment, this project provides an opportunity for additional infrastructure development and energy services businesses, including natural gas fired electric power generation and natural gas distribution. Project approval means that we should meet our vital November 1999 in-service date. This in-service date is the beginning of the winter heating season and a significant expiry date for existing New England supply contracts that can now be filled by natural gas from the new pipeline.	Our international natural gas services activities continue to follow a focused strategy to tightly manage risk and development cost expenditures, while earning an appropriate rate of return on investment. Using the energy infrastructure development experience and capital financing expertise within the Westcoast Energy group of companies, we will continue to join with reputable partners to build our international business.

FIVE SIX SEVEN EIGHT

QUESTIONS AND ANSWERS

Why is Westcoast Energy a partner in the Alliance Pipeline Project?

Our investment in the proposed Alliance Pipeline Project, to transport 1.3 billion cubic feet of natural gas per day from northeast British Columbia and Alberta to Chicago, Illinois, is another step in our transformation into a major player in the North American energy business. In addition to providing our shareholders with the opportunity to earn a strong market-based return on their investment, the project, if given regulatory approval, represents a significant new geographic thrust for Westcoast Energy. This major North American natural gas transportation project will offer a new market outlet for western Canadian natural gas and develop a competitive alternative for companies in mid-west and eastern markets who are sourcing gas supply. The Alliance Pipeline Project fits into Westcoast Energy's development of a west-to-east pipeline transportation network – from our existing integrated natural gas pipeline system located primarily in British Columbia, to the development of natural gas transportation projects downstream of the Chicago area market centre, including the proposed TriState Pipeline, Millennium West Pipeline and Millennium Pipeline projects.

Are Westcoast Energy's financial and people resources adequate to meet its strategic goal?

We have continued to successfully access the North American capital and project finance markets in support of our expansion program, including our international projects in Mexico and Indonesia. The skill and talent of employees from across the Westcoast Energy group of companies has allowed us to grow our existing pipeline systems and participate in major international joint ventures. Senior management and Board members are committed to further developing the talents and abilities of Westcoast Energy employees by providing productive and rewarding work, building innovative resourcing and compensation strategies and developing leaders across the organization.

How does Westcoast Energy intend to address Year 2000 compliance?

Year 2000 compliance is a significant business issue. Through the office of the Chairman and Chief Executive Officer, we have a Corporate Year 2000 Project Office in place at Westcoast Energy's Vancouver headquarters and project offices at each operating company. We have assembled a number of support groups to assist in addressing Year 2000 issues and assist Year 2000 project officers. Westcoast Energy intends to move into the next century without material disruption to business.

How does Union Energy plan to succeed in the competitive retail energy services marketplace?

Union Energy's objective is to be the customer's number one choice for high-quality, competitively priced energy products and services. Customers will be able to select from a comprehensive menu which includes the sale, rental, installation and maintenance of energy equipment, such as water heaters, furnaces, fireplaces and air conditioners, as well as financing and energy management, procurement and sales, all designed to meet the individual needs and budgets of Canadians. We will support these products with superior technical advice and quality service.

As a leader in the North American energy services industry, Westcoast Energy is participating in the development of effective solutions for reducing greenhouse gas emissions. ¶ Natural gas is an available, economic and efficient energy source. We believe it is also an integral part of the solution to climate change.

Since 1992, countries around the world have been working to develop policies and actions to address increasing levels of greenhouse gas emissions. In December 1997, international leaders met in Kyoto, Japan, and reached agreement on a protocol to reduce global greenhouse gas emissions. The Kyoto Protocol commits industrialized nations to reduce emissions by an average of 5.2% below 1990 levels before the determined commitment period (2008-2112). Many of the mechanisms and compliance measures that will be used to reach these targets, including market-based instruments, must now be developed by the global community.

Greenhouse Gas Emissions and Climate Change

Gases in our atmosphere, such as carbon dioxide, methane and nitrous oxide, act like a greenhouse — trapping the sun's heat near the Earth's surface and allowing plant and animal species to grow. In the past, the rate at which these greenhouse gases were released and the rate at which they were absorbed was about equal. Today, with industrialization, population growth and the burning of fossil fuels, more greenhouse gases are being released into the atmosphere than are being absorbed. It is this imbalance that scientists believe may lead to climate change.

Natural Gas: Part of the Solution

We believe that natural gas is an immediate solution to reducing greenhouse gas emissions. Natural gas is the cleanest burning fossil fuel, generating the least amount of carbon dioxide per unit of energy produced. For example, converting home heating systems to natural gas from an alternative fossil fuel can help lower residential carbon dioxide emissions by 30%.

Our ongoing commitment to energy efficiency in the demand-side management programs of our natural gas distribution businesses is complemented by new efficiencies created through cogeneration and energy services activities. Cogeneration allows the efficient production of electricity and steam from the same energy source, and our energy services businesses provide energy audits and energy efficiency and management services.

To ensure that we remain a part of the solution, we will continue to champion energy efficiency and conservation measures in our own facilities, and among our customers. Together with the Canadian natural gas industry, we will also support the development of renewable energy sources such as wind and solar power.

Understanding Market-Based Instruments

A key element of our position on climate change is support for the development and use of market-based instruments to manage greenhouse gas emissions, including economic incentives to encourage investment in energy efficiency and the use of cleaner burning fossil fuels such as natural gas.

A range of market-based instruments has been identified as possible emissions reduction measures. Non-tax instruments include the use of offsets and emissions trading to allow flexibility in meeting reduction targets. Tax instruments modify environmental actions by imposing charges on those activities with an adverse effect on the environment, or provide incentives for activities with less environmental impact.

Working on Market-Based Approaches

Westcoast Energy is working to understand how market-based approaches to managing greenhouse gas emissions may work:

- We are engaged in a pilot project to develop the methods and tools for "capturing" commercially acceptable ownership of greenhouse gas emissions reduction credits, including credits which may be generated from our cogeneration activities.
- Our non-regulated energy services business, Union Energy, provides customers with energy equipment sales, rentals, installation and maintenance, as well as financing and energy management, procurement and sales. Many of these services may assist in energy efficiency and conservation, and create offsets which will benefit Westcoast Energy and our customers.

Westcoast Energy retains its commitment to participate in Canada's Voluntary Challenge Registry and further voluntary measures that become part of our National Climate Change Action Plan. Our Sustainable Development Council, established in 1994, also continues to ensure that environmentally responsible action remains a corporate priority.

We will continue our work with scientists, governments, corporations and communities to promote energy conservation and efficiency and at the same time deliver energy and energy services using safe, reliable and economic natural gas.

MARKET-BASED INSTRUMENTS

Offsets compensate for greenhouse gas emissions in one area of operation with reduced emissions in another area. The offset then becomes a credit applied to total emissions levels.

Joint implementation allows industrialized nations to assist in reducing emissions in developing world countries and gain credits for domestic emissions levels. The Kyoto Protocol proposes a Clean Development Mechanism to govern and encourage these projects.

For more information regarding our approach to climate change, or to request a copy of Westcoast Energy's Voluntary Challenge Registry Report or Sustainable Development Review, please call (604) 691-5062.

FINANCIAL REVIEW

CONTENTS

This discussion and analysis of the Company should be read in conjunction with the consolidated financial statements and accompanying notes. The results reported herein have been prepared in accordance with accounting principles generally accepted in Canada and are presented in Canadian dollars. The effects on net income arising from the variances between accounting principles generally accepted in Canada and the United States are detailed in note 18 to the consolidated financial statements.

The consolidated financial statements include the accounts of the Company, its subsidiaries, and its proportionate share of joint venture investments.

CONSOLIDATED OPERATIONS

Net income applicable to common shares was $210 million in 1997 compared with $193 million in 1996 and $176 million in 1995. Earnings per common share were $2.06 in 1997 compared with $1.96 in 1996 and $2.01 in 1995.

The increase in net income applicable to common shares in 1997 over 1996 was a result of higher earnings from the Gas Distribution businesses, primarily due to continued growth in the number of customers, customer usage of natural gas, service and rental revenues, as well as an increase in Union Gas' common equity component of rate base from 29% to 34%. Higher contributions were realized from the Power Generation businesses reflecting higher operating rates and tax savings. In addition, 1996 earnings included a one-time charge of $0.15 per common share for restructuring costs relating to a major reorganization of the Pipeline and Field Services Divisions.

These factors were partially offset by warmer weather in 1997 compared with 1996, a higher loss attributable to the Energy Marketing business, development costs related to the non-regulated retail energy services initiative, higher preferred share dividends, and lower approved rates of return on common equity applicable to most of the regulated businesses.

The increase in net income applicable to common shares in 1996 over 1995 was primarily due to colder weather in all of the Gas Distribution franchise areas, increased rate bases to meet customer growth, higher customer usage and rental revenues, lower interest costs and the costs incurred in 1995 applicable to the reorganization of Centra Gas British Columbia.

This increase was offset partially by the costs applicable to the reorganization of the Pipeline and Field Services Divisions, lower approved rates of return on common equity applicable to some of the regulated businesses and recognition in 1995 of allowance for funds used during construction of the Empire State Pipeline.

The earnings contribution applicable to the Gas Distribution businesses is subject to weather variances. Warmer weather was experienced in 1997 and 1995 compared with 1996 in all of the Gas Distribution franchise areas. Excluding the impact of weather, earnings per common share were $2.04 in 1997 compared with $1.79 in 1996 and $1.95 in 1995.

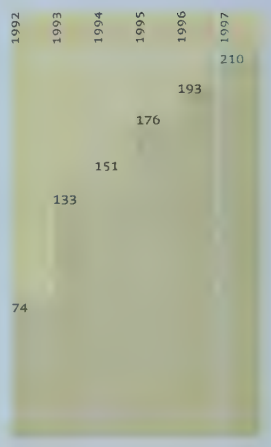
Operating revenues and cost of sales increases in 1997 over 1996 primarily reflect higher volumes of natural gas sales and new electric power sales from the Engage Energy joint ventures. Revenues also increased due to tolls which reflect higher rate bases, and higher volumes and services applicable to the Pipeline and Field Services Divisions and the majority of the Gas Distribution businesses, offset partially by lower approved rates of return on common equity applicable to most of the regulated businesses and warmer weather. Cost of sales has also increased due to increased volumes and gas prices.

The increases in operating revenues and cost of sales in 1996 over 1995 primarily reflect an increase in volumes traded by the Energy Marketing business and colder weather. Revenues also increased due to tolls which reflect higher rate bases, higher rental and service revenues, an increase in the ownership of Empire State Pipeline and higher revenues from international joint venture projects, offset partially by lower approved rates of return on common equity applicable to most of the regulated businesses.

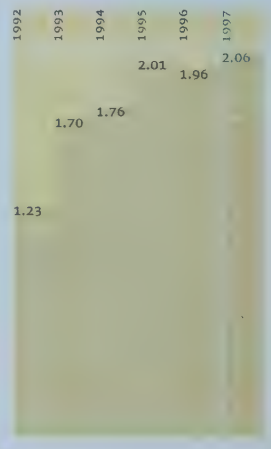
Operating and maintenance expense increases in 1997 and 1996 over 1995 reflect higher activities in the majority of the operating businesses and the introduction of new businesses.

Depreciation expense increases in 1997 and 1996 over 1995 primarily reflect higher capital assets for the majority of the operating businesses.

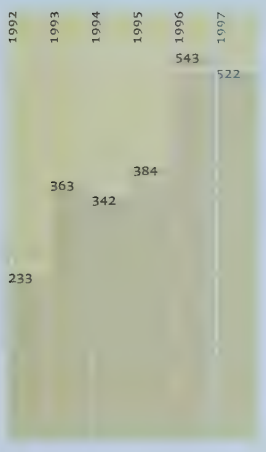
The interest expense increase in 1997 over 1996 was primarily due to higher levels of debt offset partially by lower short term interest rates. The interest expense decrease in 1996 over 1995 was primarily due to lower interest rates.



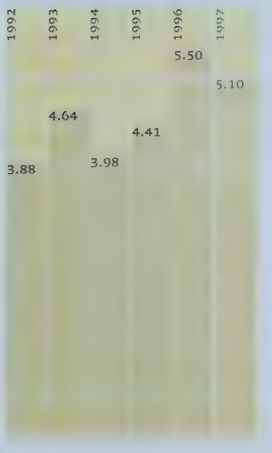
NET INCOME APPLICABLE TO COMMON SHARES
(continuing operations)
($million)



EARNINGS PER COMMON SHARE
(continuing operations)
(dollars)



OPERATING CASH FLOW
(continuing operations)
($million)



OPERATING CASH FLOW PER COMMON SHARE
(continuing operations)
(dollars)

The high level of other non-operating expenses in 1996 compared with 1997 and 1995 was primarily due to the costs relating to the major reorganization of the Pipeline and Field Services Divisions.

Income tax provision increases in 1997 and 1996 over 1995 were primarily due to higher levels of taxable income. The effective consolidated tax rate for 1997 was 33.4% compared with 34.2% in 1996 and 34.9% in 1995. Details of the consolidated income tax provisions are provided in note 2 to the consolidated financial statements, and a discussion of other taxes is noted below under Taxation.

The increase in the provision for dividends on preferred shares in 1997 over 1996 and 1995 reflects shares issued in December 1997 and 1996 as detailed in note 15 to the consolidated financial statements.

RESULTS BY STRATEGIC BUSINESSES

The results of the Company have been grouped according to the following strategic businesses:

- **Transmission and Services**—natural gas gathering, processing, transmission, energy marketing and related services;
- **Gas Distribution**—natural gas distribution, transmission, storage and related services;
- **Power Generation**—electrical and thermal energy generated from natural gas;
- **Other**—international and other activities, including unallocated corporate financing expenses.

The contribution to net income applicable to common shares by these businesses, after allocation of financing charges and related income taxes, was:

Years ended Dec 31 ($million)	1997	1996	1995
NET INCOME APPLICABLE TO COMMON SHARES			
Transmission and Services	102	87	106
Gas Distribution	139	135	101
Power Generation	12	9	8
Other	(43)	(38)	(39)
	210	193	176

The contribution to consolidated operating cash flow after non-cash working capital changes, by these businesses, after allocation of financing charges and related income taxes, was:

Years ended Dec 31 ($million)	1997	1996	1995
CASH FLOW FROM OPERATING ACTIVITIES			
Transmission and Services	198	203	150
Gas Distribution	328	351	267
Power Generation	31	34	27
Other	(35)	(45)	(60)
Operating cash flow	522	543	384
Non-cash working capital changes	(16)	(45)	109
	506	498	493

The increase in consolidated operating cash flow before non-cash working capital changes for 1997 and 1996 over 1995 was primarily due to higher revenues. The higher non-cash working capital changes in 1995 compared with 1997 and 1996 were primarily due to the reduction in the levels of natural gas held in storage as a result of colder weather experienced at the end of 1995.

Additional segmented information is provided in note 17 to the consolidated financial statements.

TRANSMISSION AND SERVICES

The operating businesses included in this segment primarily consist of the Westcoast Energy Pipeline and Field Services Divisions, Westcoast Gas Services Inc., Foothills Pipe Lines Ltd., Empire State Pipeline, Engage Energy Canada, L.P., Engage Energy US, L.P., St. Clair Pipelines (1996) Ltd., NGX Canada Inc., NrG Information Services Inc. and a sulphur products facility.

The contribution to net income applicable to common shares for Transmission and Services was:

Years ended Dec 31 ($million)	1997	1996	1995
NET INCOME CONTRIBUTION			
Pipeline and Field Services Divisions	95	74	84
Foothills Pipe Lines	9	10	11
Empire State Pipeline	8	7	12
Energy Marketing	(12)	(5)	—
Other	2	1	(1)
	102	87	106

The increase in the contribution to net income applicable to common shares for Transmission and Services in 1997 over 1996 is primarily due to a

one-time charge in 1996 of $26 million ($15 million after-tax) or $0.15 per common share relating to a major reorganization of the Pipeline and Field Services Divisions. The reorganization, which was initiated in 1996 and continued through 1997, resulted in a reduction of the work force of the two divisions by approximately 25%.

Additional earnings realized in 1997 from allowance for funds used during construction for the Maritimes & Northeast Pipeline Project and other increases were offset by higher losses attributable to the Energy Marketing business in 1997 after acquisition and financing costs reflecting intense competition and related margin contraction.

The decrease in the contribution to net income applicable to common shares for Transmission and Services in 1996 over 1995 is primarily due to the major reorganization previously noted, lower allowed rates of return on common equity and Energy Marketing trading losses partially offset by higher earnings resulting from higher rate bases.

The contribution to consolidated operating cash flow for Transmission and Services was $198 million in 1997 compared with $203 million in 1996 and $150 million in 1995.

PIPELINE AND FIELD SERVICES DIVISIONS

The Company's integrated natural gas gathering, processing and transmission system in British Columbia, Alberta, and the Yukon and Northwest Territories includes approximately 5,700 kilometres of natural gas transmission pipelines and 5 gas processing plants which include 3 sulphur recovery plants. These facilities are regulated by the National Energy Board (NEB). Westcoast Gas Services Inc. owns interests in 4 provincially regulated natural gas processing plants and a NEB regulated oil pipeline in northeast British Columbia.

Natural gas is delivered to markets in British Columbia, other parts of Canada, and the western United States. Total throughput on the transmission mainline reached a record volume of 688 billion cubic feet (Bcf) in 1997 compared with 667 Bcf in 1996 and 647 Bcf in 1995.

Incentive-Based Regulation

In August 1997, the NEB approved a multi-year incentive-based toll settlement (1997 to 2001) that the Company and key stakeholders entered into with respect to its NEB regulated gathering, processing and transmission facilities. The toll settlement is based on a 10.67% return on common equity.

Under the settlement, transmission customers had a one-time option of contracting for fixed tolls for a contract term of 5 years, or tolls that are adjusted annually under a minimum contract term of 2 years in accordance with a prescribed incentive-based methodology. Approximately 70% of the customers contracting for firm transmission service have elected the 5-year fixed toll option.

Gathering and processing customers had a one-time option of contracting for fixed base tolls for 1, 3 or 5-year service. The base tolls reflect a 500 basis point reduction from the agreed upon 10.67% rate of return on common equity and are subject to a monthly surcharge based on an index of monthly gas prices. The gas price sensitive monthly surcharge allows the Company the opportunity to recover the revenues associated with the 500 basis point reduction in return on common equity and the opportunity to earn additional revenues.

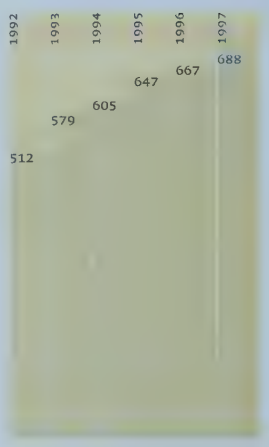
Natural gas prices in 1997 were sufficiently high to recover the revenues associated with the 500 basis point reduction.

Approximately 64% of total contracted gathering service and approximately 74% of total contracted processing service by volume have been contracted by shippers for terms of three years or more.

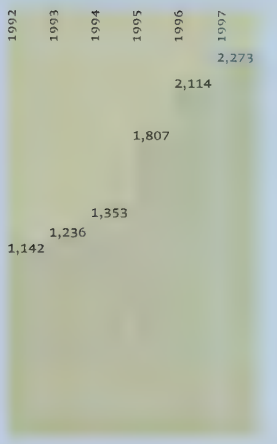
The incentive-based regulation also allows the Company to benefit from cost savings and the generation of revenues from new services.

The settlement was subject to agreement, by the Company and its major customers, on the principles of light-handed regulation to be applicable to gathering and processing services provided by the Company and was to be effective January 1, 2002. The Company and its major customers have recently agreed to a framework for light-handed regulation of the Company's NEB regulated gathering and processing facilities, which will become effective immediately upon approval by the NEB.

An application has been filed in March 1998 with the NEB for approval of the framework. The framework is intended to form the basis for the regulation of the Company's gathering and processing facilities regulated by the NEB in a manner which is consistent with the evolving competitive market for gathering and processing services in British Columbia. In that regard, the framework, upon its approval, will further define the principles under which the Company is free to negotiate individually with new and existing shippers, the market based terms and conditions including tolls applicable to gathering and processing services offered by the Company.



PIPELINE DIVISION VOLUMES
(billion cubic feet)



PIPELINE AND FIELD SERVICES DIVISIONS AVERAGE RATE BASES
($million)

Consistent with those principles, the Company will become responsible for the utilization of its gathering and processing assets and, accordingly, will have opportunities and risks associated with that responsibility unless the NEB does not approve the framework or alters its substance prior to December 31, 1999.

The framework applies to gathering and processing services. Transmission services will continue to operate under the multi-year incentive-based toll settlement.

Contractual Developments

During 1997, the Pipeline and Field Services Divisions posted transmission and processing capacity, available November 1, 1997, which had been released by certain shippers in late 1996 and early 1997. Requests for transmission pipeline capacity exceeded that which was available and the transmission system is now fully contracted on a firm basis. More than 80% of the processing capacity has now been contracted on a firm basis.

Expansion Projects Decision

During 1997, the NEB issued a decision with respect to the recovery by the Company of development costs incurred in connection with the Fort St. John Expansion Project and the Grizzly Valley Expansion Project, neither of which proceeded to construction. The NEB approved the recovery of approximately $26 million of a total of approximately $42 million of development costs for the Fort St. John Expansion Project, and denied recovery of approximately $18 million of development costs for the Grizzly Valley Expansion Project. The costs approved by the NEB for recovery are being amortized into tolls over a 10-year period, commencing in 1997.

Of the $16 million of disallowed Fort St. John Expansion Project costs, approximately $6 million relates to pipe inventory, which the NEB determined could be used or sold by the Company. The producers that would have been served by the Grizzly Valley Expansion Project have reimbursed the Company approximately $14 million of the disallowed development costs for that project. As a result of these factors, and certain earnings provisions taken by the Company in prior years, the decision did not have a material impact on the Company's net income for 1997.

Non-NEB Regulated Gathering and Processing

Westcoast Gas Services Inc. owns interests in 4 provincially regulated natural gas processing plants in northeast British Columbia.

In July 1997, the Jedney Plant Expansion Project and the Highway Plant commenced operations. The Jedney Plant Expansion increases the plant's sales gas capacity to 142 million cubic feet (MMcf) per day from 70 MMcf per day. The original Jedney Plant was completed and put into service in December 1996. The Highway Plant adds 110 MMcf per day of new sales gas capacity.

In 1997, Westcoast Gas Services Inc. proposed the development of a $120-million liquefied natural gas (LNG) storage facility to serve the peak-day requirements of markets in southern British Columbia and the Pacific Northwest. The 3 Bcf storage facility is proposed to be located near Port Mellon, British Columbia and will be designed to deliver a maximum of 300 MMcf per day of natural gas to these markets via an interconnection with Centra Gas British Columbia's existing pipeline in the region. An application has been filed for environmental permits with the B.C. Environment Assessment Office.

The LNG storage facility is one of 4 LNG projects and 3 pipeline projects that have been proposed to the British Columbia Utilities Commission (BCUC) as alternatives to the Southern Crossing Project proposed by BC Gas Utility Ltd., a customer of the Company. The Southern Crossing Project is a proposal to build a major transportation pipeline in southern British Columbia. The BCUC hearing for the Southern Crossing Project was held in 1997 and a decision is pending.

Other

The Company's capital expenditures for the Pipeline and Field Services Divisions amounted to $224 million in 1997 and are projected to be $106 million in 1998. The average rate bases of the NEB regulated Pipeline and Field Services Divisions were $2,273 million in 1997, and are projected to be $2,329 million in 1998.

FOOTHILLS PIPE LINES

Westcoast has a 50% interest in Foothills Pipe Lines Ltd., which currently transports Canadian natural gas to markets in the United States through portions of the Canadian segment of the Alaska Natural Gas Transportation System which were prebuilt (Phase I).

Foothills is one of the largest carriers of Canadian natural gas to the United States, delivering approximately one-third of Canada's total natural gas exports in 1997. Throughput reached a record volume of 935 Bcf in 1997 compared with 927 Bcf in 1996 and 920 Bcf in 1995.

The rate of return on common equity for Foothills, as determined by the NEB's multi-pipeline cost of capital decision, is 10.21% for 1998 compared with 10.67% in 1997. The common equity component of rate base was maintained at 30%.

In January 1998, construction commenced on the Eastern Leg Expansion Project, which will increase the export capacity at Monchy, Saskatchewan, by approximately 45% to 2,190 MMcf per day from 1,500 MMcf per day. The expansion project is scheduled to be in service by November 1, 1998, to match the expansion project currently under construction of Northern Border Pipeline Company's connecting pipeline system.

Foothills' total capital expenditures amounted to $15 million in 1997 and are projected to be $175 million in 1998. The Company has a 27% interest in the average rate base of Foothills' Phase I pipeline system, which was $699 million in 1997, and is projected to be $710 million in 1998.

EMPIRE STATE PIPELINE

The Empire State Pipeline, located in upper New York State, indirectly connects Union Gas' transportation and storage facilities in Ontario with markets in upper New York State. Total throughput for 1997 was 98 Bcf compared with 101 Bcf in 1996 and 114 Bcf in 1995.

In January 1997, the New York Public Service Commission approved new tolls effective November 1, 1996, which included a 12.5% rate of return on common equity and maintained the common equity component at 40%. The tolls are based on a seven year average rate base of $214 million. Empire State Pipeline will continue with this rate of return and common equity component in 1998.

In 1996, the Company increased its interest in the Empire State Pipeline to 50% from 35%.

ENERGY MARKETING

During 1997, the Company and The Coastal Corporation merged their natural gas and electricity marketing businesses. The resulting joint venture businesses operate as Engage Energy Canada, L.P. in Canada and Engage Energy US, L.P. in the United States.

Engage Energy is a major marketer of natural gas and electricity, and provides risk management and energy management services in North America, with major offices and trading centres in Calgary, Alberta, and Houston, Texas, and 13 marketing offices across North America.

In 1997, Engage Energy marketed 2,525 Bcf of natural gas and 31 million megawatt hours of electric power.

For 1997, the Company's proportionate share of Engage Energy's results, after acquisition and financing costs, amounted to a loss of $7 million. These results reflect intense competition and related margin contraction. In addition, Energy Marketing incurred losses in 1997 related to uncovered firm transportation contracts.

Prior to the formation of Engage Energy, the Company marketed 1,097 Bcf of natural gas in 1996 compared with 688 Bcf in 1995.

Additional information regarding the merger is detailed in note 11 to the consolidated financial statements.

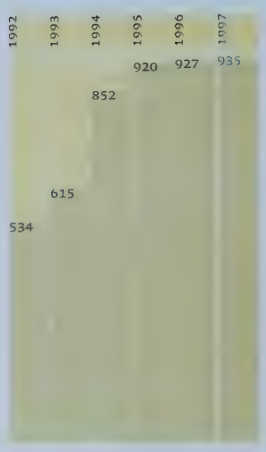
OTHER

Maritimes & Northeast Pipeline Project

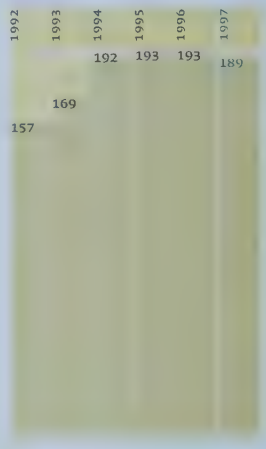
The Company has a 37.5% interest in the Maritimes & Northeast Pipeline Project (M&NP) which will transport in excess of 500 MMcf per day of natural gas sourced from offshore fields being developed near Sable Island to markets in Nova Scotia, New Brunswick, and the northeast United States. The 1,040-kilometre pipeline is expected to cost in excess of $1 billion and is expected to be in service by November 1999. The Company is responsible for the development of the Canadian portion of the pipeline.

In December 1997, the NEB issued a certificate of public convenience and necessity for the M&NP, which was the last major regulatory approval required for construction of the Canadian portion of the pipeline.

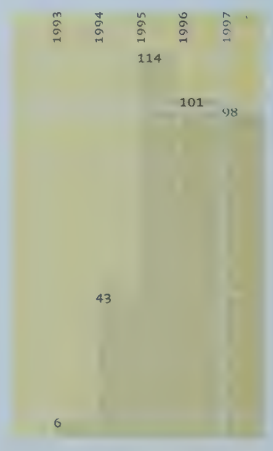
With respect to the portion of the pipeline in the United States, the Federal Energy Regulatory Commission (FERC) has awarded M&NP a full certificate on the portion of the pipeline from Dracut, Massachusetts to Wells, Maine, and has issued a preliminary determination with respect to the portion of the pipeline from Wells, Maine, to the Canada-United States border.



FOOTHILLS PIPE LINES VOLUMES
(billion cubic feet)

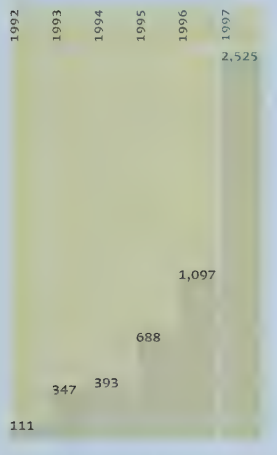


FOOTHILLS PIPE LINES AVERAGE RATE BASE
(proportionate share)
($million)



EMPIRE STATE PIPELINE VOLUMES
(billion cubic feet)

EMPIRE STATE PIPELINE AVERAGE RATE BASE
(proportionate share)
($million)



ENERGY MARKETING NATURAL GAS
(billion cubic feet)

ENERGY MARKETING ELECTRIC POWER
(million megawatt hours)

Final regulatory approval of the construction of the portion of the pipeline in the United States is expected in the second quarter of 1998.

Alliance Pipeline Project

In September 1997, the Company acquired an 11% ownership interest in the Alliance Pipeline Project (Alliance). In February 1998, the Company purchased an additional interest in Alliance from an existing Alliance partner increasing the Company's interest to approximately 14.5%.

The Alliance Pipeline Project is a 3,100-kilometre pipeline system which is designed to deliver an incremental 1.3 Bcf per day of natural gas from western Canada to the Chicago area. The pipeline is fully subscribed by shippers under 15-year term agreements. The pipeline is expected to cost in excess of $4 billion and is expected to be in service in the second half of 2000. The NEB hearing for this project is now under way and a decision is expected in the fall of 1998. A preliminary determination was issued by FERC in July 1997.

St. Clair Pipelines

The pipeline facilities of St. Clair Pipelines (1996) Ltd. connect Union Gas' facilities to pipeline and storage facilities in the United States.

These connecting pipelines provide increased natural gas supply, storage and transportation options for customers in Canada and the United States.

Natural Gas Exchange

NGX Canada Inc. provides electronic natural gas trading services at two Canadian market centres through a system called Streamline.

NGX's customers traded 895 Bcf of natural gas in 1997 compared with 405 Bcf in 1996 and 56 Bcf in 1995.

NrG Highway

The Company has a 25% interest in NrG Information Services Inc., a joint venture project with TransCanada PipeLines Ltd., NOVA Corporation and Tenneco Energy.

The joint venture has developed computer software, called NrG Highway, which allows pipeline customers to make contractual and operational arrangements for transporting natural gas through participating pipelines.

Sulphur Products

The Company participates to the extent of 32% in the operations of a sulphur products facility at Prince George, British Columbia. The facility, which is operated by the Company, produces sulphuric acid, sulphur dioxide and alum.

TriState Pipeline Project

In November 1997, the Company announced that it had reached an agreement with a subsidiary of CMS Energy Corporation (CMS) to participate in the development of the proposed TriState Pipeline Project (TriState). The Company has a one-third interest in the project. CMS has the remaining interest and will be the project manager.

The TriState project involves the construction of a new 300 MMcf per day to 1 Bcf per day natural gas pipeline from a point near Joliet, Illinois, where it will interconnect with several other pipelines, to a terminus in Michigan. From that point, the existing CMS pipeline system will be incrementally expanded by TriState to permit gas to be delivered to various points in Michigan and to the Union Gas system in Ontario, from which delivery to markets in eastern Canada and the United States may be made through interconnecting pipelines.

The expected capital cost of the project, depending on capacity, is approximately $500 to $700 million. Construction of the pipeline, which is expected to be in service by November 2000, is subject to a number of conditions, including regulatory approvals and completion of contractual agreements.

Millennium Pipeline Project

In April 1997, the Company announced its participation in the 700 MMcf per day Millennium Pipeline Project, which would transport natural gas 611 kilometres from southwest Ontario to New York City and other markets in the eastern United States.

Westcoast has a 21% interest in the project, which is expected to cost approximately $950 million and is currently scheduled to be in service in late 1999.

The Millennium Pipeline, with the construction of additional pipeline facilities noted below, would also connect to Union Gas' existing pipeline system and storage facilities at Dawn in southern Ontario.

Construction of the pipeline is subject to a number of conditions, including regulatory approvals and completion of contractual agreements.

In October 1997, St. Clair Pipelines (1996) filed a preliminary submission with the NEB to begin the environmental review process for the Millennium West Pipeline Project (MWP), a 75-kilometre pipeline from Dawn to the shore of Lake Erie. This pipeline is intended to interconnect with another proposed pipeline which would cross Lake Erie near Port Stanley, Ontario, to connect with the Millennium Pipeline. The capital cost of the MWP is expected to be approximately $160 million.

GAS DISTRIBUTION

The businesses included in this segment primarily consist of the natural gas distribution, transmission and storage businesses of Union Gas Limited, the Centra Gas Inc. companies, Pacific Northern Gas Ltd. (PNG) and businesses related to retail energy services, customer information services and natural gas vehicles.

These companies distribute natural gas to more than 1.4 million residential, commercial and industrial customers in Ontario, Manitoba, Alberta and British Columbia.

The allowable rates of return on common equity are decided in each province by the respective provincial regulatory authority. The rates of return on common equity and the common equity components of the respective rate bases of the regulated businesses for 1995 to 1997 are outlined in note 1 to the consolidated financial statements.

The Company's Gas Distribution businesses are highly seasonal, with the majority of natural gas deliveries occurring during the winter heating season from mid-October to mid-April. Gas sales during this period typically account for approximately two-thirds of annual gas distribution revenues, resulting in strong first quarter results, second and third quarters that show either small profits or losses, and strong fourth quarter results.

The Gas Distribution businesses are also sensitive to variations from normal weather conditions. Colder than normal weather conditions produce higher revenues and earnings, with the opposite result occurring in warmer than normal weather conditions.

The contribution to net income applicable to common shares for Gas Distribution was:

Years ended Dec 31 ($million)	1997	1996	1995
NET INCOME CONTRIBUTION			
Ontario Distribution	113	100	78
Other Distribution	32	35	24
Union Energy	(5)	—	—
Other	(1)	—	(1)
	139	135	101

The increase in the contribution to net income applicable to common shares for Gas Distribution in 1997 over 1996 primarily reflects continued growth in number of customers, customer usage of natural gas, service and rental revenues as well as an increase in Union Gas' common equity component of rate base from 29% to 34%.

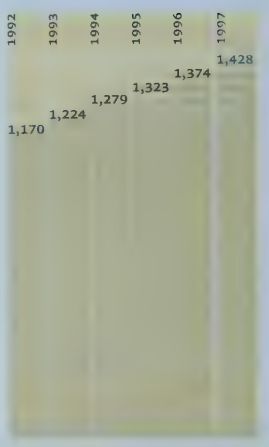
These positive factors have been partially offset by warmer weather in 1997 compared with 1996 in all of the Company's distribution franchise areas, together with lower approved rates of return on common equity applicable to most of the Gas Distribution businesses and development costs related to the new non-regulated retail energy services initiative.

The increase in the contribution to net income applicable to common shares for Gas Distribution in 1996 over 1995 was primarily due to colder weather in 1996 compared with 1995 in all of the Company's distribution franchise areas, overall customer growth, increased usage, higher rental revenues and higher rate bases. These factors were partially offset by lower approved rates of return on common equity for some of the Gas Distribution businesses.

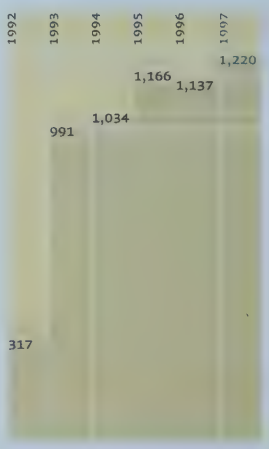
The contribution to consolidated operating cash flow for Gas Distribution was $328 million in 1997 compared with $351 million in 1996 and $267 million in 1995.

ONTARIO DISTRIBUTION OPERATIONS

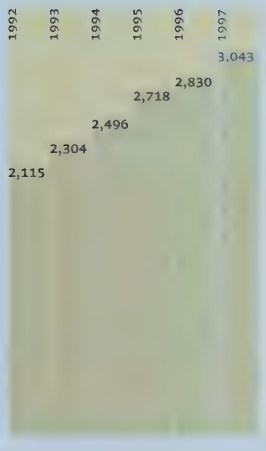
In January 1998, Union Gas and Centra Gas Ontario were amalgamated. The companies were both wholly owned subsidiaries of the Company and had operated under a shared services arrangement since 1994. The amalgamated company will continue to carry out the Ontario Distribution operations as Union Gas Limited.



GAS DISTRIBUTION CUSTOMERS
(thousand)



ONTARIO DISTRIBUTION VOLUMES
(billion cubic feet)



ONTARIO DISTRIBUTION AVERAGE RATE BASES
($million)

OTHER DISTRIBUTION VOLUMES
(billion cubic feet)

Union Gas distributes natural gas in Ontario and also transports and stores natural gas for participants in the energy markets of Ontario, Quebec and the central and eastern United States. Union Gas' underground natural gas storage facilities are the largest in Canada with a combined working capacity of 131 Bcf.

Natural gas volumes delivered by the Ontario Distribution operations were 1,220 Bcf in 1997 compared with 1,137 Bcf in 1996 and 1,166 Bcf in 1995.

The total customer base of the Ontario Distribution operations increased to 1,041,000 at December 31, 1997 compared with 1,002,000 in 1996 and 965,000 in 1995.

In March 1997, the Ontario Energy Board (OEB) approved 1997 rates for Union Gas based on an 11.00% rate of return on common equity, an increase in the common equity component of rate base from 29% to 34% and a change to flow through tax accounting from the deferred tax accounting methodology previously in use. For Centra Gas Ontario, the OEB approved 1997 rates based on an 11.25% rate of return on common equity, while maintaining the common equity component of rate base at 36%.

In February 1998, the OEB approved 1998 rates of return on common equity for Union Gas and Centra Gas Ontario of 10.44% and 10.69%, while maintaining the common equity components of the rate bases at 34% and 36% respectively. On a combined basis these rates result in a rate of return on common equity of approximately 10.5% and a common equity component of rate base of approximately 34.5%.

Union Gas requested the OEB to approve the transfer of its retail merchandise and service programs to Union Energy, an affiliated, non-regulated retail energy services business. The transfer involves approximately $475 million of net assets for cash and preferred shares. A hearing to approve the transfer of these programs commenced in February 1998 and a decision is expected in the second quarter of 1998.

The merchandise programs to be transferred include appliance sales and rentals, appliance service work and merchandise financing. Union Energy, as a non-regulated retail energy services business, will have more flexibility than the regulated utilities to design and package energy products and services to meet customer needs. Union Gas will concentrate on developing and operating new services which emphasize cost effectiveness and reliability in the delivery of natural gas to customers.

Capital expenditures applicable to Ontario Distribution were $297 million in 1997 and are projected to be $285 million in 1998.

The average rate bases applicable to Ontario Distribution were $3,043 million in 1997 and are projected to be $3,204 million in 1998.

OTHER DISTRIBUTION OPERATIONS

Centra Gas Manitoba, Centra Gas Alberta, Centra Gas British Columbia and PNG distribute and transport natural gas in Manitoba, Alberta and British Columbia.

Natural gas volumes delivered by the Other Distribution operations were 163 Bcf in 1997 compared with 169 Bcf in 1996 and 165 Bcf in 1995.

The total customer base of the Other Distribution operations increased to 387,000 at December 31, 1997, compared with 372,000 in 1996 and 358,000 in 1995.

Centra Gas Manitoba

In November 1997, Centra Manitoba filed a general rate application for 1998 with the Manitoba Public Utilities Board (MPUB) based on a rate of return on common equity of 9.91% calculated in accordance with the MPUB's previously approved formula for determining return on equity. The common equity component of rate base was maintained at 40%.

The application also seeks recovery of approximately $21 million in projected gas costs for 1998 above the level included in the interim rates approved by the MPUB in December 1997, and recovery of approximately $17 million in increased gas costs incurred in November and December 1997. The increase in gas costs, as well as other matters, are being reviewed during the hearing which commenced in March 1998. Recovery of the increased gas costs will depend on the outcome of that hearing.

Capital expenditures applicable to Centra Gas Manitoba were $24 million in 1997 and are projected to be $37 million in 1998.

The average rate base applicable to Centra Gas Manitoba was $275 million in 1997 and is projected to be $292 million in 1998.

Centra Gas Alberta

In February 1996, the Alberta Energy and Utilities Board approved an 11.75% rate of return on common equity and a common equity component of rate base of 24% for 1996. Centra Gas Alberta will

continue with this rate of return and common equity component in 1998.

Capital expenditures applicable to Centra Gas Alberta were $9 million in 1997 and are projected to be $5 million in 1998.

The average rate base applicable to Centra Gas Alberta was $121 million in 1997 and is projected to be $125 million in 1998.

Centra Gas British Columbia

In December 1995, the Company and the Province of British Columbia entered into a new agreement replacing the previous financial arrangements relating to the natural gas pipeline to Vancouver Island and connected distribution systems.

For the years 1996 to 2002, the agreement provides for a deemed equity component of rate base of 35% and for a return on the common equity component of 3.625% over the Government of Canada long term bond rate. The agreement also provides for a reduction in the return on equity of approximately $2 million per year for the years 1996 to 2011, resulting in a rate of return on common equity of approximately 8.9% for 1998.

Capital expenditures applicable to Centra Gas BC were $34 million in 1997 and are projected to be $53 million in 1998.

The average rate base applicable to Centra Gas BC was $355 million in 1997 and is projected to be $377 million in 1998.

Pacific Northern Gas

The rate of return on common equity for PNG as determined by the formula approved by the BCUC is 10.75% for 1998 compared with 11.00% for 1997, on a common equity component of rate base of approximately 35%.

Capital expenditures applicable to PNG were $9 million in 1997 and are projected to be $14 million in 1998.

The average rate base applicable to PNG was $165 million in 1997 and is projected to be $168 million in 1998.

Nova Scotia & New Brunswick Gas Distribution

In January 1998, the Company and Irving Oil Limited of Saint John, New Brunswick, announced that they had formed an alliance to pursue natural gas distribution rights in Nova Scotia and New Brunswick. The gas distribution systems would offer natural gas service to residential, commercial and industrial customers.

OTHER

Union Energy

During 1997, Union Energy began to pursue new non-regulated retail energy services opportunities. Union Energy provides energy equipment sales, rentals, installation and maintenance, as well as financing and energy management, procurement and sales to residential, commercial and industrial customers.

The pursuit of these businesses will enable the Company to profitably capitalize on its competitive advantages, while being able to manage the risks associated with operating in a non-regulated environment.

Enlogix

In February 1998, the Company announced the launch of Enlogix Inc., a new business entity created to develop and manage customer information. The primary customers will be utilities, municipalities and non-regulated energy services companies. The business consists of three service entities:

Customer Information Services (CIS), which is focused on providing computer processing associated with the customer-based billing cycle, from consumption processing through to bill calculation and preparation.

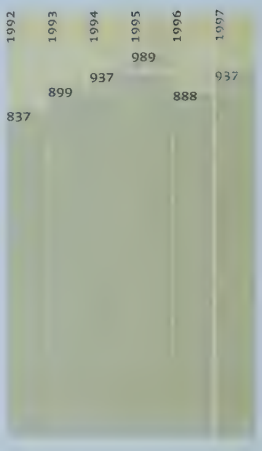
IntraLynx, a joint venture company of Enlogix and Itron Inc. of Spokane, Washington, which specializes in providing automated meter reading services.

Information Marketing, which will specialize in the gathering, processing, upgrading, analysis and management of information for utilities and energy services providers.

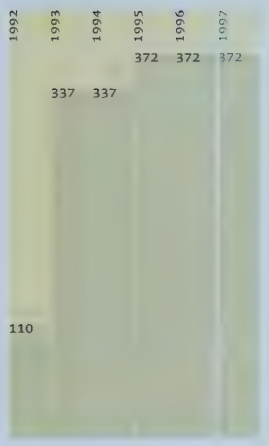
In February 1998, CIS was awarded a multi-year contract to provide services to The City of Calgary for the billing of its 325,000 residential and commercial utility customer accounts.

POWER GENERATION

The Company has interests in natural gas fired cogeneration plants in Canada and is developing additional projects. The Company also has a 50% interest in a powerline in northeast British Columbia.



OTHER DISTRIBUTION AVERAGE RATE BASES
($million)



POWER GENERATION PLANT CAPACITY
(megawatts)

The contribution to net income applicable to common shares from Power Generation was:

Years ended Dec 31 ($million)	1997	1996	1995
NET INCOME CONTRIBUTION	12	9	8

The increase in the contribution to net income applicable to common shares for Power Generation in 1997 over 1996 reflects higher operating rates and benefits associated with tax savings.

The increase in the contribution to net income applicable to common shares for Power Generation in 1996 over 1995 is primarily due to a full year of operations applicable to the Ford Cogeneration plant in Windsor, Ontario.

The contribution to consolidated operating cash flow for Power Generation was $31 million in 1997 compared with $34 million in 1996 and $27 million in 1995.

In January 1998, the Company announced that a development accord had been signed with the Columbia Energy Group to jointly pursue the development of 3 natural gas fired generating plants in the northeast United States. The 3 plants would provide a total of up to 1,000 megawatts of electricity.

Westcoast Power and its joint venture partner, Atlantic Packaging, have completed construction of a 50-megawatt cogeneration plant at Whitby, Ontario. However, the commissioning process has been delayed due to operational problems experienced with the Rolls-Royce gas turbine.

Westcoast Power and Fletcher Challenge Energy Inc. are developing a cogeneration plant near Campbell River on Vancouver Island. Westcoast Power has a 40% interest in the 240-megawatt Island Cogeneration Project (ICP) which is expected to cost in excess of $200 million.

In 1997, ICP negotiated an agreement in principle on the essential commercial terms for a 20-year agreement with BC Hydro to purchase electricity from ICP.

The project is subject to government approvals and negotiation of formal contracts. Construction of the plant is expected to begin in 1998.

OTHER

This segment includes international and other activities. Unallocated corporate expenses include financing costs and related income taxes that have not been allocated to any of the other businesses.

The contribution to net income applicable to common shares for Other activities was:

Years ended Dec 31 ($million)	1997	1996	1995
NET INCOME CONTRIBUTION			
Corporate financing	(31)	(33)	(30)
International	(4)	(5)	(4)
Other	(8)	—	(5)
	(43)	(38)	(39)

Corporate financing decreased in 1997 over 1996 primarily due to lower interest rates. Corporate financing increased in 1996 over 1995 primarily due to higher levels of unallocated debt offset by lower interest rates.

International development expenditures were partially offset by income applicable to the Company's international investment in Indonesia of $5 million in 1997 compared with $4 million in 1996 and $3 million in 1995.

WESTCOAST ENERGY INTERNATIONAL

The Company, through its subsidiary Westcoast Energy International Inc., is actively pursuing energy related projects primarily in Australia, the Asia-Pacific region and Latin America.

Mexico - Cantarell Nitrogen Project

Engineering and procurement have commenced for the nitrogen production plant near Ciudad del Carmen in the State of Campeche, Mexico. The nitrogen will be used by Pemex, the national oil company of Mexico, to enhance the production and recovery of oil from Cantarell, one of the world's largest oil fields, located offshore in the Bay of Campeche.

The complex, expected to cost $1.4 billion, will include the largest nitrogen processing facilities ever built; an extensive pipeline system, including approximately 90 kilometres of offshore pipelines; and a 200-megawatt natural gas fired power plant.

The project is scheduled to begin service during 2000. The Company currently has a 20% interest in the project.

Indonesia - Power Plant

During 1997, the Company purchased additional interests in P.T. Puncakjaya Power (PJP), increasing its interest from 20% to 43%.

In December 1997, PJP acquired a 195-megawatt power plant, a related transmission line and associated facilities under construction at the Grasberg Mine in Irian Jaya. The interest was acquired from P.T. Freeport Indonesia Company (PTFI), which is the principal mining affiliate of Freeport McMoran Copper & Gold Inc. The new power facilities, expected to be completed in 1998, will support a major expansion of PTFI's copper and gold mining and milling operation at the Grasberg Mine.

With this acquisition, in addition to power generation facilities purchased in 1994 and 1995, PJP now owns and manages approximately $800 million of an integrated power generation plant and related facilities which provides electrical power to the Grasberg Mine under a long-term contract payable in US funds in the United States.

China - Shanghai Power Project

In September 1997, the Company executed joint venture contracts to advance the implementation of the captive power plant with Shanghai No. 1 Iron & Steel (Group) Company Ltd. The project is expected to receive final government approvals permitting construction to begin in 1998. The Company will have a 32.5% interest in the project which is expected to cost approximately $70 million.

The plant will produce 50-megawatts of electrical power utilizing a waste product, blast furnace gas, as its primary fuel.

Australia - Eastern Gas Pipeline Project

The Eastern Gas Pipeline Project (EGP), a joint venture of the Company and Broken Hill Proprietary Company Limited, is a 747-kilometre, high-pressure pipeline that will carry natural gas from the Bass Strait gas processing facility near Longford, Victoria to markets in Sydney, New South Wales, and along the pipeline route. The estimated cost of the project is approximately $400 million.

EGP is continuing negotiations with the pipeline's prospective shippers to conclude the shippers' agreements that are required before the pipeline can proceed to construction.

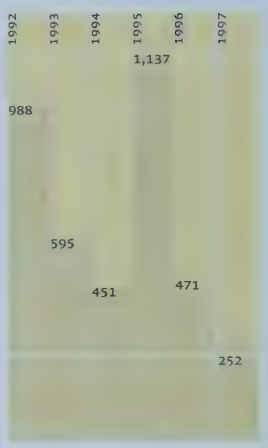
Australian Power Projects

The Company has entered into development agreements with local partners and customers to develop natural gas fired power generation facilities in Australia. Under these development agreements, further detailed feasibility work is being carried out.

WESTCOAST CAPITAL CORPORATION

In April 1997, the Company established a wholly owned subsidiary, Westcoast Capital Corporation, which provides selected financial services to aid energy customers in the acquisition of energy related equipment.

The provision of financial services complements the Company's other services and provides opportunity for growth. The creation of Westcoast Capital will enable the Company to profitably capitalize on its competitive advantages, while being able to manage the risks associated with operating in a non-regulated environment.



LONG TERM DEBT ISSUED
($million)

LIQUIDITY AND CAPITAL RESOURCES

The Company, its subsidiaries and joint ventures meet their cash requirements through funds generated from operations together with proceeds from the issue of common and preferred shares, and short and long term debt.

The Company, its subsidiaries and joint ventures have operating lines of credit in excess of $1,300 million with Canadian chartered banks that enable the Company, its subsidiaries and joint ventures to borrow directly from the banks, to issue bankers' acceptances, and to support commercial paper programs. In December 1997, $600 million of short term operating lines of credit were converted to a 5-year term operating line of credit.

The Company, its subsidiaries and joint ventures make use of short term bank indebtedness to finance working capital as well as provide interim financing in advance of long term debt or equity

issues. The resulting consolidated bank indebtedness and the portion of long term debt due within one year result in negative working capital from time to time.

The Company, its subsidiaries and joint ventures raised $252 million through the issuance of long term debt in 1997 compared with $471 million in 1996 and $1,137 million in 1995. The details of long term debt are provided in note 12 to the consolidated financial statements.

In February 1996, the Company issued 10.5 million common shares for cash under a public offering at a price of $21.25, thereby increasing common stock by $223 million. The net proceeds were used to retire commercial paper previously issued by the Company. Approximately 20% of the common shares were issued in the United States under the multijurisdictional disclosure system.

The Company also issues common shares through its Dividend Reinvestment and Share Purchase Plan. Common shares issued under the plan increased common stock by $52 million in 1997 compared with $43 million in 1996 and $29 million in 1995.

In July 1997, in light of the continuing strength of the Company's core businesses and the promise of new projects, the Board of Directors raised the quarterly common share dividend to 31 cents, an increase of 2 cents per quarter, raising the indicated annual dividend per common share to $1.24.

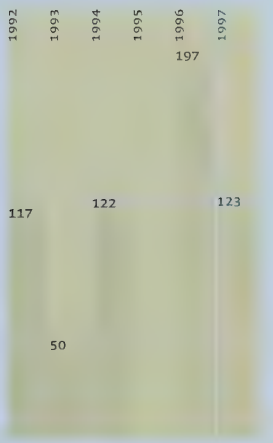
Details of common share issues are provided in note 16 to the consolidated financial statements.

In December 1997, the Company raised $123 million from the issue of the 4.72% Cumulative Redeemable First Preferred Shares, Series 6.

In December 1996, the Company raised $197 million from the issue of the 4.90% Cumulative Redeemable First Preferred Shares, Series 5.

Details of preferred share issues are provided in note 15 to the consolidated financial statements.

COMMON SHARES ISSUED
($million)



PREFERRED SHARES ISSUED
($million)

TAXATION

In addition to Federal and Provincial income taxes, the Company's operations are subject to significant indirect taxation. The amount of taxes paid by the Company and its subsidiaries in 1997 was $362 million or 63% of income before income taxes, indirect taxes and non-controlling interest. The types of taxes paid are:

Years ended Dec 31 ($million)	1997	1996	1995
TAXATION			
Federal and Provincial income taxes	144	117	111
Large corporation tax	14	14	14
Current income taxes	158	131	125
Property taxes	117	111	105
Provincial capital and sales taxes	41	46	57
Payroll related taxes	23	22	24
Natural gas taxes	17	15	15
Other taxes and permits	6	7	7
	362	332	333

YEAR 2000 REVIEW

The Company has launched a major initiative to review all computer systems and applications and key business processes in use throughout the Company to determine whether each will be able to operate accurately in, and following, the year 2000, and to take any necessary remediation steps to avoid problems which may cause a material disruption to the Company's business.

A project office has been established to implement a coordinated plan to manage Year 2000 issues throughout the Company. As part of this initiative, the Company is communicating with customers, suppliers, service providers and business partners to assess their Year 2000 readiness.

The cost of the program is currently projected to be approximately $30 million based on current estimates of required remediation measures.

MARKET OUTLOOK

The delivery of energy in North America continues to undergo change as it evolves from its traditional regulated monopoly/oligopoly form to a less regulated and competitive business environment. Customers are demanding more choice, flexibility and value for their energy dollar. This evolution is occurring at all points along the energy delivery chain, from gathering, processing and transportation, through to distribution and end-user energy services.

Regulators are responding to the changes taking place and are approving new regulatory regimes that include performance-based components that motivate service providers to reduce costs and increase customer choice and flexibility in return for sharing in the resulting gains. Services previously bundled into one charge by regulated utilities are now being unbundled and parts of the business are being opened up to competition.

Convergence is occurring between energy forms, particularly natural gas and electricity, and ultimately customers will have the opportunity to purchase generic energy in whichever form meets their energy needs and provides the greatest value.

In this evolving marketplace, the Company is also changing in order to meet the needs of its customers in a cost-effective manner.

A new tolling methodology has been implemented in British Columbia for the Company's NEB regulated assets which incorporates greater flexibility for customers and performance-based components together with significantly less regulatory oversight. In several of the distribution businesses, performance-based regulatory regimes are in varying stages of being prepared for filing with regulators.

In Ontario, Union Gas is proceeding with a hearing before the OEB to unbundle its service work, equipment rental, financing and retail merchandising business from its delivery of natural gas business. The delivery business will continue in a regulated form, but the other activities are expected to be transferred to a non-regulated company that will operate in a competitive environment.

Concurrently, a new energy services business has been started, in Union Energy, to pursue opportunities in the non-regulated retail energy services market.

Engage Energy, the Company's energy marketing affiliate, is aggressively moving to expand its capabilities in electricity trading and Westcoast Power is examining opportunities to construct additional power generation facilities in markets where strong demand exists. These initiatives will support the Company's efforts in operating in a market where natural gas and electricity are converging into a single energy source.

In addition, a number of new natural gas transportation projects are also in development which will link Canadian natural gas reserves to new markets providing an incremental and cost-efficient energy supply to these new markets.

To supplement its energy delivery assets and service businesses, the Company is also undertaking a new information services initiative which will manage energy based customer information. Enlogix Inc. will operate outside of regulation to provide customer information services to companies within the Westcoast group and to companies outside of the Westcoast group.

In addition to growth in North America, the Company will continue to pursue a disciplined strategy of international expansion in targeted markets where it can apply its expertise in energy infrastructure development and earn suitable risk adjusted returns.

While the environment in which the Company is operating is changing rapidly, initiatives are under way to foster the continued growth and success of the Company in this new environment. Successful energy delivery companies, in an environment of less regulation and more competition, will be either highly specialized niche players or those, such as Westcoast Energy Inc., that bring a broad service capability linking many or all aspects of the energy delivery chain. A strong customer focus and an innovative approach to meeting customer needs, supplemented with related capabilities in financing and information based business solutions, will be important to ongoing success and adding shareholder value.

MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements and all information in this report have been prepared by and are the responsibility of management. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in Canada and include certain estimated amounts which are based on informed judgements to ensure fair representation in all material respects. When alternative accounting methods exist, management has chosen those it considers most appropriate.

Management depends upon the Company's system of internal controls and formal policies and procedures to ensure the consistency, integrity and reliability of accounting and financial reporting, and to provide reasonable assurance that assets are safeguarded and that transactions are properly executed in accordance with management's authorization. Management is also supported and assisted by a program of internal audit services.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and for final approval of the consolidated financial statements. The Board of Directors performs this responsibility primarily through its Audit Committee.

The Audit Committee is comprised solely of directors who are not employees of the Company or of its subsidiaries. The Audit Committee meets regularly with management, the internal auditors and the shareholders' auditors to review the consolidated financial statements, the Auditors' Report and other auditing and accounting matters to ensure that each group is properly discharging its responsibilities.

Ernst & Young, Chartered Accountants, the shareholders' auditors, have full and free access to the Audit Committee, as does the Director of Internal Audit Services. The Audit Committee reports its findings to the Board of Directors.

Ernst & Young has performed an independent audit of the consolidated financial statements in this report. Their independent professional opinion on the fairness of these consolidated financial statements is included in the Auditors' Report.

February 16, 1998

M.E.J. Phelps
Chairman and Chief Executive Officer

G.M. Wilson
Executive Vice President and Chief Financial Officer

AUDITORS' REPORT

To the Shareholders of Westcoast Energy Inc.

We have audited the consolidated balance sheets of Westcoast Energy Inc. as at December 31, 1997 and 1996 and the consolidated statements of operations, retained earnings and cash flow for each of the years in the three year period ended December 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1997 and 1996 and the results of its operations and the changes in its financial position for each of the years in the three year period ended December 31, 1997 in accordance with accounting principles generally accepted in Canada.

Ernst & Young

Chartered Accountants
Vancouver, Canada
February 16, 1998

CONSOLIDATED STATEMENTS OF OPERATIONS

For the years ended December 31 ($million)	1997	1996	1995
OPERATING REVENUES	7,312	4,875	4,184
OPERATING EXPENSES			
Cost of sales	5,379	3,001	2,445
Operation and maintenance	663	644	589
Depreciation	329	298	275
Taxes—other than income taxes	148	145	136
	6,519	4,088	3,445
OPERATING INCOME	793	787	739
OTHER INCOME			
Allowance for funds used during construction	12	12	27
Investment and other income	23	18	16
	828	817	782
OTHER EXPENSES			
Interest *(Note 12)*	454	448	462
Other *(Note 5)*	6	33	8
	460	481	470
INCOME BEFORE UNDERNOTED ITEMS	368	336	312
INCOME TAXES *(Note 2)*			
Current	158	131	125
Deferred	(35)	(16)	(16)
	123	115	109
	245	221	203
NON-CONTROLLING INTEREST	7	9	9
NET INCOME	238	212	194
PROVISION FOR DIVIDENDS ON PREFERRED SHARES	28	19	18
NET INCOME APPLICABLE TO COMMON SHARES	210	193	176
COMMON SHARES—WEIGHTED AVERAGE (million)	102	99	87
PER COMMON SHARE—BASIC *(Note 4)*	$2.06	$1.96	$2.01
DIVIDENDS PER COMMON SHARE	$1.20	$1.05	$0.93

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOW

For the years ended December 31 ($million)	1997	1996	1995
OPERATING ACTIVITIES			
Net income	238	212	194
Add (deduct) items to reconcile to net cash			
Non-controlling interest	7	9	9
Deferred income taxes	(35)	(16)	(16)
Depreciation and amortization	339	305	263
Other	(27)	33	(66)
Operating cash flow	522	543	384
Non-cash working capital changes *(Note 6)*	(16)	(45)	109
	506	498	493
INVESTING ACTIVITIES			
Additions to fixed assets	(676)	(634)	(942)
Acquisitions	(61)	(19)	(15)
Other	(124)	86	(56)
Net cash used by investing activities	(861)	(567)	(1,013)
FINANCING ACTIVITIES			
Long term debt additions	252	471	1,137
Long term debt repayments	(208)	(385)	(191)
Common shares issued	58	258	30
Preferred shares issued	123	197	—
Non-controlling interest preferred shares redeemed	(44)	(10)	(2)
Dividends paid	(155)	(131)	(107)
Net cash provided by financing activities	26	400	867
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE YEAR	(329)	331	347
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	(368)	(699)	(1,046)
CASH AND CASH EQUIVALENTS, END OF YEAR	(697)	(368)	(699)
OPERATING CASH FLOW PER COMMON SHARE *(Note 4)*	$5.10	$5.50	$4.41

Cash and cash equivalents consist of cash and short term investments net of bank indebtedness.

See accompanying notes

CONSOLIDATED BALANCE SHEETS

December 31 ($million)	1997	1996 (restated)
ASSETS		
CURRENT ASSETS		
Cash and short term investments	60	29
Accounts receivable		
Trade	1,036	898
Other	57	62
Inventory *(Note 7)*	394	319
Prepayments	27	20
	1,574	1,328
INVESTMENTS *(Note 8)*	195	184
FIXED ASSETS *(Note 9)*		
Plant, property and equipment	10,665	9,699
Less accumulated depreciation	2,640	2,395
	8,025	7,304
DEFERRED CHARGES *(Note 10)*	281	250
	10,075	9,066

On behalf of the Board:

Director

Director

December 31 ($million)	1997	1996 (restated)
LIABILITIES		
CURRENT LIABILITIES		
Bank indebtedness *(Note 13)*	757	397
Accounts payable and accrued liabilities		
Trade	584	533
Other	322	217
Income and other taxes payable	82	125
Interest on debt	95	97
Long term debt due within one year *(Note 12)*	205	148
	2,045	1,517
LONG TERM DEBT *(Note 12)*	4,941	4,743
DEFERRED INCOME TAXES *(Note 2)*	400	366
NON-CONTROLLING INTEREST		
Preferred	29	74
Common	34	31
	63	105
PREFERRED SHAREHOLDERS' EQUITY		
PREFERRED STOCK *(Note 15)*	570	445
COMMON SHAREHOLDERS' EQUITY		
COMMON STOCK *(Note 16)*	1,412	1,354
CUMULATIVE TRANSLATION ADJUSTMENT	21	—
RETAINED EARNINGS	623	536
	2,056	1,890
	10,075	9,066
CONTINGENCIES *(Note 19)*		

See accompanying notes

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

For the years ended December 31 ($million)	1997	1996	1995
RETAINED EARNINGS, BEGINNING OF YEAR	536	456	361
NET INCOME	238	212	194
Share issue costs *(Notes 15 and 16)*	(1)	(8)	—
	773	660	555
DIVIDENDS			
Common shares	122	105	81
Preferred shares	28	19	18
	150	124	99
RETAINED EARNINGS, END OF YEAR	623	536	456

See accompanying notes

1. ACCOUNTING POLICIES

ACCOUNTING PRINCIPLES

The Company is incorporated under the laws of Canada and prepares its financial statements in accordance with accounting principles generally accepted in Canada which, as applied in these financial statements except as described in note 18, conform in all material respects with accounting principles generally accepted in the United States. The consolidated financial statements are presented in Canadian dollars.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and disclosure of contingent assets and liabilities.

CONSOLIDATION

The consolidated financial statements include the accounts of the Company, its subsidiaries and its proportionate share of joint venture investments.

Major Subsidiaries

Westcoast Gas Inc.–100% owned
–Union Energy Inc.–100% owned
–Westcoast Gas Services Inc.–100% owned
–St. Clair Pipelines (1996) Ltd.–100% owned
–Centra Gas Holdings Inc.–100% owned
–Centra Gas Inc.–100% owned
–Union Gas Limited–100% owned
–Centra Gas Ontario Inc.–100% owned
–Centra Gas Manitoba Inc.–100% owned
–Centra Gas Alberta Inc.–100% owned
–Centra Gas British Columbia Inc.–100% owned
Pacific Northern Gas Ltd.–41% owned, including 100% of the voting shares
Westcoast Power Holdings Inc.–100% owned
–Westcoast Power Inc.–100% owned
Westcoast Transmission Company (Alberta) Ltd. –100% owned
Westcoast Energy International Inc.–100% owned
Westcoast Capital Corporation–100% owned
Westcoast Energy Risk Inc.–100% owned
NGX Canada Inc.–100% owned

Major Joint Ventures

Foothills Pipe Lines Ltd.–50% owned
Empire State Pipeline–50% owned (1995–35%)
Maritimes & Northeast Pipeline Limited Partnership –37.5% owned
Maritimes & Northeast Pipeline, L.L.C. –37.5% owned
Engage Energy Canada, L.P. –50% owned *(Note 11)*
Engage Energy US, L.P. –50% owned *(Note 11)*
McMahon Cogeneration Project–50% owned
Lake Superior Power Limited Partnership –50% owned
Whitby Cogeneration Limited Partnership –50% owned
P.T. Puncakjaya Power–43% owned (1996–20%)
Cantarell Nitrogen Project–20% owned
Eastern Gas Pipeline Pty. Limited–50% owned

INVESTMENTS

Investments in which the Company exercises significant influence, but not control, are accounted for by the equity method. Other investments are carried at cost, net of write downs for declines in value that are other than temporary in nature. Finance contracts represent customer financing for the purchase of natural gas appliances which are due over periods of up to 10 years.

GAS DISTRIBUTION REVENUE RECOGNITION

Operating revenues include gas sales applicable to the Gas Distribution businesses which are recorded on the basis of meter readings plus an estimate of customer usage since the last meter reading date prior to the end of the year.

INCOME TAXES

The Company and its subsidiaries provide for income taxes relating to utility businesses using the income taxes currently payable method as directed by the regulators. Under the income taxes currently payable method, no provision is made for income taxes deferred as a result of differences in timing between the treatment for income tax and accounting purposes of various items of income and expenditure.

The income tax allocation method is used for non-utility businesses of the Company, its subsidiaries and certain utility items as directed by regulators. Under this method, provision is made for income taxes deferred principally as a result of claiming capital cost allowance for income tax purposes in excess of depreciation provided in the accounts.

In 1997, following regulatory approval, the Company's subsidiary, Union Gas Limited, changed its accounting for income taxes relating to its utility business from the income tax allocation method to the income taxes currently payable method. This change has been applied prospectively since the basis for determining Union Gas' rates and revenues for its utility business were previously established taking into account the provision for income taxes based on the income tax allocation method.

REGULATION

The Company and certain of its subsidiaries and joint ventures are engaged in utility businesses which are subject to regulation by Federal, Provincial or State agencies within Canada or the United States. The regulatory authorities exercise statutory authority over matters such as rate of return, natural gas exports, construction and operation of natural gas facilities, accounting practices and rates, tolls and charges. The regulatory rates of return on common equity applicable to utility businesses are:

For the years ended December 31 (percent)	*Equity Component of Rate Base*			*Return on Common Equity*		
	1997	1996	1995	1997	1996	1995
Westcoast Energy Inc.	35	35	35	(a)	11.25	12.25
Foothills Pipe Lines Ltd.	30	30	30	10.67	11.25	12.25
Empire State Pipeline	40	25	25	12.50	14.58	15.00
Union Gas Limited	34	29	29	11.00	11.75	11.75
Centra Gas Ontario Inc.	36	36	36	11.25	12.13	12.13
Centra Gas Manitoba Inc.	40	40	40	10.58	11.28	12.12
Centra Gas Alberta Inc.	24	24	24	11.75	11.75	12.00
Centra Gas British Columbia Inc.	35	35	30	9.32	10.05	8.47
Pacific Northern Gas Ltd.	35	35	35	11.00	11.75	12.75

(a) In 1997, the National Energy Board (NEB) approved a multi-year incentive-based toll settlement (1997 to 2001) which the Company and key stakeholders entered into with respect to its gathering, processing and transmission facilities based on a 10.67% return on common equity.

Under the settlement, transmission customers have the option of contracting for fixed tolls for 5-year service or tolls that are adjusted annually in accordance with a prescribed incentive-based methodology. Gathering and processing customers have the option of contracting for fixed base tolls for 1, 3 or 5-year service for which the tolls reflect a 500 basis point reduction from the agreed upon 10.67% rate of return on common equity and are subject to a monthly surcharge based on an index of monthly gas prices. The gas price sensitive monthly surcharge allows the Company the opportunity to recover the revenues associated with the 500 basis point reduction in return on common equity and the opportunity to earn additional revenues.

FOREIGN CURRENCY TRANSLATION

The Company's foreign businesses maintain their accounts in United States dollars or local currency. These businesses are operationally and functionally self-sustaining and accordingly, the assets and liabilities are translated into Canadian dollars at the year-end exchange rate, and revenues and expenses are translated into Canadian dollars at the average exchange rate for the year. The resulting unrealized cumulative translation gains or losses are deferred as a separate component of shareholders' equity.

For development expenditures applicable to foreign businesses, costs are translated into Canadian dollars at the prevailing exchange rate as incurred.

Funds on deposit with banks, and current liabilities payable in United States dollars have been translated into Canadian dollars at the year-end exchange rate. Any resulting gain or loss is reflected in income.

RISK MANAGEMENT

The Company enters into forwards, futures, swaps and option contracts to minimize its exposure to changes in the market prices of natural gas and electric power. The Company defers the impact of changes in the market value of these contracts until such time as the associated transaction is completed. The Company enters into interest rate and foreign currency swaps to manage interest rate and foreign currency risks. The differentials to be paid or received are accrued as changes occur and are recognized over the lives of the agreements.

The Company issues and trades natural gas and electric power option based products and services directly with customers and for its own risk management purposes. The level of risk exposure from these options is managed by daily portfolio structuring and hedging against movements in gas prices. Gains and losses arising from these natural gas option based products and services are recognized on the physical movement of gas or settlement of the financial contract.

FIXED ASSETS

Plant, property and equipment are recorded at cost. In accordance with normal utility practice, the cost of utility plant, property and equipment includes an allowance for funds used during construction. For non-regulated businesses, interest costs incurred during construction are capitalized as part of the cost of the asset. Assets employed in utility businesses are depreciated on the straight-line basis at rates approved by regulatory authorities. Power generation facilities are depreciated on a unit of production basis. Other non-utility assets are depreciated on the straight-line basis. The rates used resulted in a composite rate of 3.0% for each of the years in the 3 year period ended December 31, 1997.

For some of the gas distribution businesses, the regulators have authorized the recovery over time of anticipated future removal and site restoration costs. For the other utility businesses, the regulators have not yet directed that future removal and site restoration costs be accrued. Upon retirement or sale of items of utility plant, property or equipment, the original costs associated with such items are charged against the applicable accumulated depreciation accounts and the cost of removal net of proceeds of disposal are charged to accumulated depreciation.

The cost of fixed assets is reduced by contributions and grants in aid of construction received from customers and from governmental bodies in support of specific pipeline and distribution facilities.

CAPITALIZATION AND MAINTENANCE

Maintenance and repairs are charged to expense accounts when incurred. The costs of major replacements, extensions or improvements are capitalized as plant, property and equipment. For power generation facilities, provisions for major maintenance and gas turbine overhauls are normalized and accrued annually.

INVENTORY

Materials and supplies are valued at the lower of average cost or net realizable value. Natural gas inventories are valued at costs approved by the regulators.

PENSION AND OTHER POST RETIREMENT BENEFITS

Pension costs and obligations are determined annually by independent actuaries using management's best estimates. Pension assets are valued by using current market values or average market related values over a 3 year period. Pension expense consists of current service costs and adjustments arising from plan amendments, changes in assumptions, and experience gains or losses which are amortized on a straight-line basis over the expected average remaining service life of the relevant employee group. The costs of health care and life insurance benefits for retirees are expensed as paid.

DEFERRED CHARGES

Costs as required or permitted by the regulators have been deferred to be recovered from future revenues. Certain regulatory deferrals are subject to future decisions by the relevant regulators who will determine the treatment to be given the various items.

Costs incurred for development projects relate to projects which are in progress. The costs of projects that do not develop into viable operations are expensed. Costs related to long term debt are deferred and amortized on a straight-line basis over the life of the respective debt issues. Share issue costs of the Company are charged to retained earnings.

COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the 1997 presentation.

2. INCOME TAXES

A reconciliation between the statutory and the effective rate of income taxes is provided as follows:

For the years ended December 31 ($million)	1997	1996	1995
Income before income taxes and non-controlling interest	368	336	312
Combined statutory income tax rates (percent)	44.6	44.5	44.7
Statutory income tax rates applied to accounting income	164	150	140
Increase (decrease) in income taxes resulting from:			
– The use of the income taxes currently payable method applicable to utility operations:			
– Capital cost allowance claimed for income tax purposes in excess of depreciation	(60)	(43)	(38)
– Other items recognized for income tax purposes in advance of accounting income recognition	5	(9)	(14)
	(55)	(52)	(52)
– Preferred dividends recorded as interest expense	3	3	6
– Large corporation tax in excess of surtax	14	14	14
– Other	(3)	—	1
	(41)	(35)	(31)
Provision for income taxes	123	115	109
Effective rate of income taxes (percent)	33.4	34.2	34.9

Income taxes by geographic location were:

For the years ended December 31 ($million)	1997	1996	1995
Income before income taxes and non-controlling interest			
Canada	364	320	295
Foreign	4	16	17
	368	336	312
Current income taxes			
Canada	156	130	125
Foreign	2	1	—
	158	131	125
Deferred income taxes			
Canada	(31)	(20)	(20)
Foreign	(4)	4	4
	(35)	(16)	(16)
Provision for income taxes	123	115	109

With respect to the computation of deferred income taxes, the sources of timing differences and the income tax effects of each were:

For the years ended December 31 ($million)	1997	1996	1995
Depreciation and amortization in excess of capital cost allowance claimed for income tax purposes	(20)	(25)	(31)
Net regulated deferrals deductible (included) for tax purposes	(24)	25	8
Other items deducted for income tax purposes in advance of (subsequent to) accounting charges	9	(16)	7
Deferred income taxes	(35)	(16)	(16)

If all the companies had used the income tax allocation basis for regulated utility operations, the additional provision for the years ended December 31 and the additional accumulated provisions would be:

For the years ended December 31 ($million)	1997	1996	1995
Balance, beginning of year	611	559	504
Increase in unrecorded taxes	55	52	55
Balance, end of year	666	611	559

Prior to 1997, the Company's subsidiary, Union Gas Limited, used the income tax allocation method for its utility business as directed by its regulator, accumulating deferred taxes of approximately $383 million.

3. FINANCIAL INSTRUMENTS

NATURAL GAS MARKETING

The Company's joint ventures, Engage Energy Canada, L.P. and Engage Energy US, L.P. (Engage Energy), market natural gas and electric power. Engage Energy's portfolio of natural gas and electric power contracts is comprised primarily of forwards, futures, swaps and option contracts for periods of up to 15 years, which also include related fixed and floating price commitments. These transactions give rise to certain business risk, including market and credit risk. In addition, Engage Energy uses a variety of derivative instruments to manage these risks.

(a) Market risk is the risk that the value of the portfolio will change, either favourably or unfavourably, in response to changing market conditions. Market risks are monitored by an internal risk management group independent of Engage Energy's trading activities to ensure compliance to Company standards. The Company monitors and manages its exposure to market risk through a variety of risk management techniques. Such procedures include measurement of risk, market comparison, monitoring of all commitments and positions, and daily reporting to senior management. Additionally, sensitivity to changes in market price and market volatility are examined on a daily basis.

(b) Credit risk is the risk of loss from non-performance by suppliers, customers or financial counterparties to a contract. Engage Energy's operations are primarily concentrated in the natural gas industry and major customers' operations are also heavily concentrated in the same industry. Engage Energy maintains credit policies with respect to all its counterparties, which management believes significantly minimizes overall credit risk. These policies include a review of a counterparty's financial condition, measurement of credit exposure, monitoring of aggregate exposure against limits by the internal credit risk management group and the use of standardized agreements which allow for the netting of positive and negative exposures associated with a single counterparty. The credit risk management group reviews and monitors the application of the policy for suppliers, customers and counterparties. Customers not meeting minimum standards must provide secured credit terms.

NATURAL GAS SUPPLY

The natural gas supply of the Company's Gas Distribution businesses includes gas supply contracts with pricing mechanisms that reflect monthly variations in the price of gas, rather than fixed prices. For some of these contracts the effective purchase price has been fixed through the use of gas price swap contracts. The differences between the price of natural gas used for toll purposes and the effective cost of gas purchased is deferred for future disposition as approved by the respective regulators. The difference, if any, between amounts actually recorded as receivable or payable at year end and amounts actually approved for recovery by the regulator will be charged to income at the time of the regulator's decision. The net asset position of these deferrals at December 31, 1997 was approximately $57 million (December 31, 1996 – a net asset position of approximately $69 million).

Approximately 35% of the forecast 1998 gas supply of the Gas Distribution businesses from January through December 1998 is indexed to variable pricing mechanisms. At December 31, 1997 the purchase price applicable to 38 billion cubic feet (Bcf) or 39% of this indexed supply has been effectively fixed through the use of natural gas swaps and other contracts.

NOTIONAL AMOUNTS OF DERIVATIVE INSTRUMENTS

The approximate notional amounts of derivative instruments at December 31, 1997 are:

	Within One Year	One to Three Years	Three to Five Years	More than Five Years	Total
FIXED PRICE RECEIVER					
Fixed and floating price swaps (Bcf)	297,922	99,598	4,983	13,425	415,928
Natural gas basis swaps (Bcf)	241,544	22,813	4,449	—	268,806
Natural gas futures contracts (Bcf)	44,380	—	—	—	44,380
Natural gas options (Bcf)	22,518	18,840	1,520	—	42,878
Foreign currency contracts ($million)	23	19	—	—	42
FIXED PRICE PAYOR					
Fixed and floating price swaps (Bcf)	239,802	107,520	29,658	48,605	425,585
Natural gas basis swaps (Bcf)	228,927	5,944	—	—	234,871
Natural gas futures contracts (Bcf)	47,480	890	—	—	48,370
Natural gas options (Bcf)	13,355	10,355	1,520	—	25,230
Foreign currency contracts ($million)	6	1	—	—	7

Notional amounts reflect the volume of transactions but do not represent the amounts exchanged by the parties to the financial instruments. Accordingly, notional amounts do not accurately measure the Company's exposure to market or credit risks. The maximum term in years detailed above are not indicative of likely future cash flows as these instruments may be traded in the markets at any time in response to the Company's risk management needs.

FAIR MARKET VALUES

The following fair market value information is provided solely to comply with financial instrument disclosure requirements. The Company cautions readers in the interpretation of the impact of these estimated fair market values due to the regulated nature of some of the Company's operations. Based on the current regulatory process, any gains or losses arising from utility related financial instruments would be deferred for future disposition as approved by the respective regulators.

Fair market values have been estimated by reference to quoted market prices for the actual or similar instruments where available. The fair market values of accounts receivable and current liabilities approximate carrying values. The carrying values and approximate fair market values of the Company's financial instruments are :

December 31 ($million)	1997		1996	
	Carrying Value	Approx FMV	Carrying Value	Approx FMV
ASSETS				
Investments	195	208	184	211
Financial swaps (natural gas)	—	83	—	69
Futures contracts (natural gas)	—	12	1	6
Options (natural gas)	—	7	—	—
Foreign currency contracts	—	—	—	3
LIABILITIES				
Long term debt	4,941	5,705	4,743	5,319
Interest rate swaps	—	30	—	34
Financial swaps (natural gas)	—	140	—	70
Futures contracts (natural gas)	—	12	2	4
Options (natural gas)	—	12	2	2
Foreign currency contracts	—	1	—	1

4. EARNINGS AND CASH FLOWS PER COMMON SHARE

Basic earnings per common share are calculated using the weighted average number of common shares outstanding during the year.

For the years ended December 31	1997	1996	1995
Net income applicable to common shares ($million)	210	193	176
Number of shares (million)			
Shares outstanding at the beginning of the year	101	88	86
Changes due to treasury shares issued, options exercised and shares issued under the Dividend Reinvestment and Share Purchase Plan	1	11	1
Weighted average shares for the year	102	99	87
Earnings per common share—basic	$2.06	$1.96	$2.01

Fully diluted earnings per common share are calculated using an adjusted average number of common shares outstanding during the year and an adjusted net income applicable to common shares, which reflect the potential exercise of share purchase options and the conversion of preferred shares *(Notes 15 and 16)*. An imputed after-tax return of 3.3% has been used in these calculations.

For the year ended December 31	1997
Adjusted net income applicable to common shares ($million)	223
Adjusted weighted average shares for the year (million)	112
Earnings per common share—fully diluted	$1.99

Operating cash flow per common share is also calculated using the weighted average number of common shares outstanding during the year applied to cash flow from operating activities before adjustments for non-cash working capital changes.

For the years ended December 31	1997	1996	1995
Operating cash flow before non-cash working capital changes ($million)	522	543	384
Weighted average shares for the year (million)	102	99	87
Operating cash flow per common share	$5.10	$5.50	$4.41

5. OTHER EXPENSES

For the years ended December 31 ($million)	1997	1996	1995
Reorganization costs (a)	—	26	—
Other	6	7	8
	6	33	8

(a) During 1996, the Company's Pipeline and Field Services Divisions initiated a major reorganization, including a reduction in the workforce, resulting in a charge to income of $26 million.

6. NON-CASH WORKING CAPITAL CHANGES

For the years ended December 31 ($million)	1997	1996	1995
Accounts receivable	(183)	(228)	(184)
Inventory and prepayments	(73)	(64)	148
Accounts payable and accrued liabilities	229	176	61
Interest and taxes payable	11	71	84
	(16)	(45)	109

7. INVENTORY

December 31 ($million)	1997	1996
Gas in storage	278	204
Materials and supplies	116	115
	394	319

8. INVESTMENTS

December 31 ($million)	1997	1996
Finance contracts	104	102
Leases	—	70
Energy contracts *(Note 11)*	62	–
Alliance Pipeline Project *(Note 20)*	14	–
Other	15	12
	195	184

9. FIXED ASSETS

December 31 ($million)	1997	1996
PLANT, PROPERTY AND EQUIPMENT		
Transmission and Services		
Natural gas pipeline systems	2,589	2,516
Processing plants	1,226	1,014
Other	172	162
Construction work in progress	30	50
	4,017	3,742
Gas Distribution		
Natural gas pipeline and distribution systems	4,395	4,247
Natural gas storage	493	461
Other	1,025	903
Construction work in progress	45	35
	5,958	5,646
Other		
Power generation plants	648	287
Other	42	24
	690	311
	10,665	9,699
ACCUMULATED DEPRECIATION		
Transmission and Services	1,078	990
Gas Distribution	1,479	1,338
Other	83	67
	2,640	2,395
	8,025	7,304

10. DEFERRED CHARGES

December 31 ($million)	1997	1996
Regulatory (a)	152	155
Development projects (b)	56	41
Debt discount, premium and expense	33	34
Other	40	20
	281	250

(a) During 1997, the NEB issued a decision with respect to the recovery by the Company of development costs incurred in connection with the Fort St. John Expansion Project and the Grizzly Valley Expansion Project, neither of which proceeded to construction. The NEB approved the recovery of approximately $26 million of a total of approximately $42 million of development costs for the Fort St. John Expansion Project, and denied recovery of approximately $18 million of development costs for the Grizzly Valley Expansion Project. The costs approved by the NEB for recovery are being amortized into tolls over a 10 year period, commencing in 1997.

Of the $16 million of disallowed Fort St. John Expansion Project costs, approximately $6 million relates to pipe inventory, which the NEB determined could be used or sold by the Company. The producers that would have been served by the Grizzly Valley Expansion Project have reimbursed the Company for approximately $14 million of the disallowed development costs for that project. As a result of these factors and certain earnings provisions taken by the Company in prior years, the decision does not have a material impact on the Company's net income for 1997.

(b) The Company is involved in a joint venture with Broken Hill Proprietary Company Limited to build a pipeline to carry natural gas from southeastern Australia to markets in Sydney and along the pipeline route. The estimated cost of the project is $400 million.

Shippers' agreements are required before the pipeline can proceed to construction. Construction of the pipeline has been delayed due to protracted negotiations with the pipeline's prospective shippers. It is possible that agreements with the prospective shippers may not be successfully concluded. The carrying value of the project at December 31, 1997 is approximately $16 million.

11. INVESTMENTS IN JOINT VENTURES

The following condensed statements of operations, cash flow and balance sheets detail the Company's share of its investments in joint ventures which have been proportionately consolidated:

For the years ended December 31 ($million)	1997	1996	1995
PROPORTIONATE STATEMENTS OF JOINT VENTURE OPERATIONS			
Operating revenues	4,367	145	144
Operating expenses	(4,296)	(71)	(65)
Other income	6	—	1
Interest on debt	(26)	(28)	(28)
Income taxes	(3)	(2)	(5)
Net income	48	44	47

For the years ended December 31 ($million)	1997	1996	1995
PROPORTIONATE STATEMENTS OF JOINT VENTURE CASH FLOW			
Operating activities	9	88	62
Investing activities	(166)	(100)	(57)
Financing activities	145	14	36
Increase (decrease) in cash and cash equivalents during the year	(12)	2	41

December 31 ($million)	1997	1996
PROPORTIONATE JOINT VENTURE BALANCE SHEETS		
Current assets	534	40
Investments	39	77
Fixed assets	900	509
Deferred charges	65	93
	1,538	719
Current liabilities	499	34
Long term debt	564	332
Deferred income taxes	46	34
Westcoast Energy's investment carrying value	429	319
	1,538	719

(a) During 1997, the Company and The Coastal Corporation (Coastal) agreed to merge their natural gas and electricity marketing businesses. The joint venture businesses operate as Engage Energy Canada, L.P. in Canada and Engage Energy US, L.P. in the United States.

Each party contributed energy contracts and cash to the joint ventures with an aggregate fair value of approximately $194 million each. In conjunction with this, the Company purchased approximately $65 million of existing contracts from Coastal in order to equalize its ownership in each of the two joint ventures at 50%. This amount has been recorded as energy contracts and is being amortized on a straight-line basis over 10 years *(Note 8)*.

(b) During 1997, the Company purchased additional interests in P.T. Puncakjaya Power that it did not previously own, increasing its interest from 20% to 43% and concurrently refinanced a major expansion of its power facilities currently under construction. The acquisitions have been accounted for by the purchase method as follows:

December 31 ($million)	1997
Fixed assets	256
Working capital	8
Long term debt	(214)
Deferred charges	(3)
Cash purchase price	47

12. LONG TERM DEBT

December 31 ($million)	Due Date	1997	1996
WESTCOAST ENERGY INC.			
Unsecured Debentures			
8.8%–average fixed rate (9.0%–1996)	1998– 2027	1,998	1,900
CENTRA GAS INC. AND SUBSIDIARIES			
Unsecured Senior Debentures			
9.8%–average fixed rate (9.8%–1996)	1998– 2018	1,787	1,880
Preferred Stock			
6.6%–average fixed rate (6.7%–1996)		56	74
Term Bank Loans and Other			
7.9%–average fixed rate (8.3%–1996)	1998 –2009	250	229
WESTCOAST GAS INC.			
Term Bank Loans			
4.6%–average year end rate (3.7%–1996)	2000	350	350
FOOTHILLS PIPE LINES LTD.			
Term Bank Loans			
7.4%–average year end rate (7.0%–1996)	1998–2005	137	137
PACIFIC NORTHERN GAS LTD.			
Secured Debentures			
9.2%–average fixed rate (10.1%–1996)	1998– 2027	95	80
EMPIRE STATE PIPELINE			
Term Bank Loans			
6.7%–average year end rate (6.1%–1996)	2009	76	89
WESTCOAST POWER HOLDINGS INC. AND SUBSIDIARIES			
Senior Secured Notes			
9.4%–average fixed rate (9.4%–1996)	2006	30	35
Term Bank Loans and Other			
7.2%–average year end rate (6.5%–1996)	2004–2009	367	117
		5,146	4,891
Deduct long term debt due within one year		205	148
		4,941	4,743

Consolidated interest on long term debt for the year ended December 31, 1997 was $426 million (for the year ended December 31, 1996–$409 million, for the year ended December 31, 1995–$401 million).

Consolidated long term debt repayments, including sinking fund obligations, are:

Due Date	$million	Due Date	$million
1998	205	2003–2007	1,378
1999	233	2008–2012	392
2000	656	2013–2017	660
2001	176	2018–2022	462
2002	387	2023–2027	597
	1,657		3,489

13. BANK INDEBTEDNESS

The Company, its subsidiaries and joint ventures have operating lines of credit in excess of $1,300 million with Canadian chartered banks that enable the Company, its subsidiaries and joint ventures to borrow directly from the banks, to issue bankers' acceptances, and to support commercial paper programs.

The average year end interest rate applicable to the consolidated bank indebtedness at December 31, 1997 was 4.7% (December 31, 1996–3.2%).

14. PENSION PLANS

The Company, its subsidiaries and joint ventures have defined benefit pension plans and retirement arrangements covering substantially all employees. Normal retirement benefits under these plans commence at age 65 and are related to employees' remuneration and years of service.

The pension expense for the year ended December 31, 1997 was $17 million (for the year ended December 31, 1996 – $17 million, for the year ended December 31, 1995 – $18 million).

The pension fund assets at December 31, 1997 are $514 million (December 31, 1996 – $477 million) and the projected pension obligations at December 31, 1997 are $514 million (December 31, 1996 – $480 million). The projected pension obligations represent the discounted value of benefits expected to be paid to plan members, based on projected salaries, rates of return and years of service.

The assumed future rates of return on assets and discount rates used to determine the projected pension obligations of the plans range from 7.5% to 8% for 1997. The future long term salary and wage escalation rates, including merit increases, range from 3.25% to 6.5% for 1997.

15. PREFERRED STOCK

The Company is authorized to issue an unlimited number of preferred shares, in two classes issuable in series, without nominal or par value. Preferred shares issued and outstanding are:

December 31 ($million)		1997	1996
4,800,000	Cumulative First Preferred Shares, Series 2 (a)	120	120
5,000,000	Cumulative Redeemable First Preferred Shares, Series 4 (b)	125	125
8,000,000	Cumulative Redeemable First Preferred Shares, Series 5 (c)	200	200
5,000,000	Cumulative Redeemable First Preferred Shares, Series 6 (d)	125	—
		570	445

(a) The Cumulative First Preferred Shares, Series 2 (8.08% or $2.02) are convertible into common shares of the Company, at the option of the holder, upon 30 days notice, on or after July 1, 1998 (at quarterly intervals) at the ratio determined by dividing $25.00 by the greater of $1.00 and 95% of a 20 day weighted average trading price of the Company's common shares on The Toronto Stock Exchange. These shares are convertible into common shares of the Company, at the option of the Company, upon 30 days notice, at the ratio determined by dividing the reference price, which ranges from $25.00 to $25.50, by the greater of $1.00 and 95% of a 20 day weighted average trading price of the Company's common shares on The Toronto Stock Exchange.

(b) The Cumulative Redeemable First Preferred Shares, Series 4 (6.90% or $1.725) are convertible into common shares of the Company, at the option of the holder, upon 65 days notice, on or after January 1, 2000 (at quarterly intervals, subject to the Company's right on at least 40 days notice to redeem or arrange for the sale to substitute purchasers) at the ratio determined by dividing $25.00 together with accrued and unpaid dividends, by the greater of $3.00 and 95% of a 20 day weighted average trading price of the Company's common shares on The Toronto Stock Exchange. On or after October 1, 1999, the Company has the option to redeem these shares, upon 30 days notice, at $25.00 plus accrued and unpaid dividends or to convert these shares into common shares of the Company, at the ratio determined by dividing $25.00 together with accrued and unpaid dividends, by the greater of $3.00 and 95% of a 20 day weighted average trading price of the Company's common shares on The Toronto Stock Exchange.

(c) The Cumulative Redeemable First Preferred Shares, Series 5 (4.90% or $1.225), which were issued for cash in 1996, are convertible into common shares of the Company, at the option of the holder, upon 65 days notice, on or after January 1, 2002 (at quarterly intervals, subject to the Company's right on at least 40 days notice to redeem or arrange for the sale to substitute purchasers) at the ratio determined by dividing $25.00 together with accrued and unpaid dividends, by the greater of $3.00 and 95% of a 20 day weighted average trading price of the Company's common shares on The Toronto Stock Exchange. On or after October 1, 2001, the Company has the option to redeem these shares, upon 30 days notice, at $25.00 plus accrued and unpaid dividends or to convert these shares into common shares of the Company, at the ratio determined by dividing $25.00 together with accrued and unpaid dividends, by the greater of $3.00 and 95% of a 20 day weighted average trading price of the Company's common shares on The Toronto Stock Exchange. The issue costs of these shares amounting to $3 million, less income taxes of $1 million, have been charged to retained earnings.

(d) The Cumulative Redeemable First Preferred Shares, Series 6 (4.72% or $1.18), which were issued for cash in 1997, are convertible into common shares of the Company, at the option of the holder, upon 65 days notice, on or after April 15, 2003 (at quarterly intervals, subject to the Company's right on at least 40 days notice to redeem or arrange for the sale to substitute purchasers) at the ratio determined by dividing $25.00

together with accrued and unpaid dividends, by the greater of $3.00 and 95% of a 20 day weighted average trading price of the Company's common shares on The Toronto Stock Exchange. On or after January 15, 2003, the Company has the option to redeem these shares, upon 30 days notice, at $25.00 plus accrued and unpaid dividends or to convert these shares into common shares of the Company, at the ratio determined by dividing $25.00 together with accrued and unpaid dividends, by the greater of $3.00 and 95% of a 20 day weighted average trading price of the Company's common shares on The Toronto Stock Exchange. The issue costs of these shares amounting to $2 million, less income taxes of $1 million, have been charged to retained earnings.

16. COMMON STOCK

The Company is authorized to issue an unlimited number of common shares without nominal or par value. Common shares issued and outstanding are:

December 31 ($million)	1997	1996
103,245,876 Common Shares (1996–100,747,253)	1,412	1,354

1997

- 2,178,423 common shares issued for cash under the Dividend Reinvestment and Share Purchase Plan at issue prices ranging from $21.32 to $28.60 per share, increasing common stock by $52 million.
- 320,200 common shares issued for cash on options exercised at option prices ranging from $17.69 to $24.02 per share, increasing common stock by $6 million.

1996

- 10,500,000 common shares issued for cash under a public offering at a price of $21.25 per share, increasing common stock by $223 million. The issue costs of these shares amounting to $10 million, less income taxes of $4 million, have been charged to retained earnings.
- 2,199,275 common shares issued for cash under the Dividend Reinvestment and Share Purchase Plan at issue prices ranging from $19.07 to $21.32 per share, increasing common stock by $43 million.
- 75,000 common shares issued for cash on options exercised and 106 common shares issued under share appreciation rights, at option prices ranging from $14.75 to $23.93 per share, increasing common stock by $2 million.

1995

- 1,486,490 common shares issued for cash under the Dividend Reinvestment and Share Purchase Plan at issue prices ranging from $19.10 to $22.63 per share, increasing common stock by $29 million.
- 41,800 common shares issued for cash on options exercised at option prices ranging from $16.13 to $20.98 per share, increasing common stock by $1 million.

In 1997, the Directors granted 467,200 options, at a price of $24.02 per share based on a 10 day weighted average trading price of the Company's common shares on The Toronto Stock Exchange. At December 31, 1997, 2,869,060 common shares were under option at prices ranging from $17.69 to $24.02 per share, of which 1,412,200 are eligible for share appreciation rights that allow the holder to receive 50 percent of the appreciated value in cash and the balance in common shares of the Company. At December 31, 1997, 684,209 common shares are reserved for options which have not yet been allocated.

At December 31, 1997, 5,300,625 common shares are reserved for issuance under the Dividend Reinvestment and Share Purchase Plan.

Preferred shares amounting to $20 million held by a non-controlling interest in Union Energy Inc. are convertible into common shares of the Company at any time at the option of the holder at 95% of a 20 day weighted average trading price of the Company's common shares on The Toronto Stock Exchange.

17. SEGMENTED INFORMATION

The operations of the Company have been grouped according to the following strategic businesses:

- **Transmission and Services**—natural gas gathering, processing, transmission, energy marketing and related services;
- **Gas Distribution**—natural gas distribution, transmission, storage and related services;
- **Power Generation**—electrical and thermal energy generated from natural gas;
- **Other**—international and other activities, including unallocated corporate financing expenses.

The Company has businesses and development projects which are primarily located in the United States, Australia, Mexico, and Indonesia. The percentages of the Company's consolidated operating revenues net of cost of sales, consolidated operating income and consolidated assets represented by these businesses and development projects are:

For the years ended December 31	1997	1996	1995
Consolidated operating revenues, net of cost of sales	3%	3%	2%
Consolidated operating income	2%	4%	3%
Consolidated assets	11%	5%	

The following strategic businesses represent the segmentation of the Company's operations including the allocation of financing costs and related income taxes as applicable:

For the year ended December 31 ($million)	*Transmission and Services*	*Gas Distribution*	*Power Generation*	*Other*	*Total*
1997					
Operating revenues	4,791	2,396	109	16	7,312
Operating expenses					
–Depreciation	108	202	18	1	329
–Other	4,408	1,689	68	25	6,190
Operating income	275	505	23	(10)	793
Other income	17	14	1	3	35
	292	519	24	(7)	828
Other expenses	169	254	8	29	460
Income before undernoted items	123	265	16	(36)	368
Income taxes	19	119	4	(19)	123
Non-controlling interest	—	7	—	—	7
Net income	104	139	12	(17)	238
Provision for preferred dividends	2	—	—	26	28
Net income applicable to common shares	102	139	12	(43)	210
Per common share—basic	$1.00	$1.36	$0.12	$(0.42)	$2.06
Operating cash flow	198	328	31	(35)	522
Operating cash flow per common share	$1.94	$3.20	$0.30	$(0.34)	$5.10
Additions to fixed assets	269	381	9	17	676
Total assets	3,858	5,497	253	467	10,075

For the year ended December 31 ($million)	Transmission and Services	Gas Distribution	Power Generation	Other	Total
1996					
Operating revenues	2,458	2,297	107	13	4,875
Operating expenses					
–Depreciation	85	195	16	2	298
–Other	2,121	1,584	65	20	3,790
Operating income	252	518	26	(9)	787
Other income	14	14	1	1	30
	266	532	27	(8)	817
Other expenses	191	257	8	25	481
Income before undernoted items	75	275	19	(33)	336
Income taxes	(12)	131	10	(14)	115
Non-controlling interest	—	9	—	—	9
Net income	87	135	9	(19)	212
Provision for preferred dividends	—	—	—	19	19
Net income applicable to common shares	87	135	9	(38)	193
Per common share—basic	$0.88	$1.37	$0.09	$(0.38)	$1.96
Operating cash flow	203	351	34	(45)	543
Operating cash flow per common share	$2.06	$3.55	$0.34	$(0.45)	$5.50
Additions to fixed assets	231	380	22	1	634
Total assets	3,417	5,212	282	155	9,066

For the year ended December 31 ($million)	Transmission and Services	Gas Distribution	Power Generation	Other	Total
1995					
Operating revenues	1,753	2,312	106	13	4,184
Operating expenses					
–Depreciation	71	187	15	2	275
–Other	1,432	1,652	65	21	3,170
Operating income	250	473	26	(10)	739
Other income	27	3	1	12	43
	277	476	27	2	782
Other expenses	157	264	11	38	470
Income before undernoted items	120	212	16	(36)	312
Income taxes	14	102	8	(15)	109
Non-controlling interest	—	9	—	—	9
Net income	106	101	8	(21)	194
Provision for preferred dividends	—	—	—	18	18
Net income applicable to common shares	106	101	8	(39)	176
Per common share—basic	$1.21	$1.16	$0.09	$(0.45)	$2.01
Operating cash flow	150	267	27	(60)	384
Operating cash flow per common share	$1.72	$3.06	$0.31	$(0.68)	$4.41
Additions to fixed assets	504	388	33	17	942

18. RECONCILIATION OF GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

The Company prepares its accounts in accordance with accounting principles generally accepted in Canada (Canadian GAAP) which in the main, parallel accounting principles generally accepted in the United States (US GAAP). The following reconciliations reflect the major differences in accounting principles:

For the years ended December 31 ($million)	1997	1996	1995
Net income *(as reported)*	238	212	194
Adjustments			
Prior years' adjustments *(a)*	—	—	(31)
Other *(b)(c)(d)(e)*	(9)	(3)	(2)
Net income—adjusted	229	209	161
Provision for dividends on preferred shares	28	19	18
Net income applicable to common shares—adjusted	201	190	143
Common stock—weighted average *(million)*	102	99	87
Per common share—basic	$1.97	$1.92	$1.64
—fully diluted	$1.93		

Consolidated cash flow under accounting principles generally accepted in the United States would be:

For the years ended December 31 ($million)	1997	1996	1995
Operating activities	506	498	493
Investing activities	(861)	(567)	(1,013)
Financing activities *(f)*	386	72	523
Increase in cash during the year	31	3	3
Cash, beginning of year	29	26	23
Cash, end of year	60	29	26

Consolidated balance sheet items under accounting principles generally accepted in the United States would be:

December 31 ($million)	1997	1996
ASSETS		
Deferred income taxes *(d)*	26	20
Deferred charges *(b) (c) (d)*	1,602	1,477
LIABILITIES		
Long term obligations *(b)*	80	64
Deferred income taxes *(b) (c) (d)*	1,672	1,545
RETAINED EARNINGS	618	540

(a) US GAAP requires that the 1995 prior years' adjustments as recorded under Canadian GAAP be reported as a deduction from income in 1995. The prior years' adjustments relate to payments resulting from negotiating a new government agreement with respect to the natural gas pipeline to Vancouver Island and a litigation judgement against the Company.

(b) The Statement of Financial Accounting Standards (SFAS) 106, Employers' Accounting for Post-Retirement Benefits Other Than Pensions, requires the accrual of liabilities applicable to post-retirement other than pension benefits. The consolidated accumulated post-retirement benefits at December 31, 1997 amount to $80 million. The accrual related to the period prior to the introduction of SFAS 106 is being amortized on a straight-line basis over 20 years. Under Canadian GAAP the costs of health care and life insurance benefits for retirees are expensed as paid.

(c) SFAS 87, Employers' Accounting for Pensions, requires that pension fund assets be measured at current market values rather than at average market related values under Canadian GAAP and that the present value of the accrued pension plan obligations be discounted using current interest rates which may be different from management's assumptions for interest rates under Canadian GAAP . Using the requirements of SFAS 87, the consolidated pension fund assets would be $514 million and the consolidated pension obligations would be $600 million at December 31, 1997, and the pension expense would be $19 million for the year ended December 31, 1997 (for the year ended December 31, 1996–$15 million, for the year ended December 31, 1995–$14 million).

(d) SFAS 109, Accounting for Income Taxes, requires deferred income tax balances to be adjusted to reflect current legislated tax rates. For utility operations using the income taxes currently payable method, SFAS 109 requires the recording of deferred income taxes and the corresponding long term receivables which are to be collected from regulated customers in future years.

The variances in deferred income taxes are:

December 31 ($million)	1997	1996
Deferred taxes under Canadian GAAP	400	366
SFAS 109 utility deferred income taxes	1,277	1,180
Other adjustments	(5)	(1)
Total future income tax liability under US GAAP	1,672	1,545

(e) Effective January 1, 1996, the Company adopted SFAS 123, Accounting for Stock-Based Compensation, which requires that the fair market value of benefits related to stock-based compensation be charged to income over the applicable vesting period.

(f) Accounting principles generally accepted in the United States require that changes in bank indebtedness be reported as a financing activity.

(g) Accounting principles generally accepted in Canada require the proportionate consolidation of the Company's investments in joint ventures. The Securities and Exchange Commission regulations permit the filing of financial statements using proportionate consolidation provided that condensed statements of operations, cash flow and balance sheets detailing the Company's share of its investments in joint ventures are provided *(Note 11)*.

19. CONTINGENCIES

Due to the size, complexity and nature of the Company's operations, various legal matters are pending. In the opinion of management, these matters will not have a material effect on the Company's consolidated financial position or results of operations.

20. SUBSEQUENT EVENT

In January 1998, the Company announced that it had agreed to purchase an additional 8% interest in the Alliance Pipeline Project (Alliance) from an existing Alliance partner. Under a separate arrangement, the Company has agreed with another existing Alliance partner for it to acquire one-half of this interest. As a result of the two transactions, the Company's interest in Alliance will increase to approximately 14.5%.

CONSOLIDATED QUARTERLY RESULTS

(Unaudited)

For the three months ended ($million)	March 31	June 30	Sept. 30	Dec. 31	Total
1997					
Operating revenues	2,235	1,563	1,485	2,029	7,312
Operating expenses	1,918	1,406	1,395	1,800	6,519
Operating income	317	157	90	229	793
Other net expenses	109	105	108	110	432
Income taxes	79	13	(8)	39	123
Net income (loss)	129	39	(10)	80	238
Provision for dividends on preferred shares	7	7	7	7	28
Net income (loss) applicable to common shares	122	32	(17)	73	210
Per common share—basic *(dollar)*	$1.20	$0.31	$(0.17)	$0.72	$2.06

For the three months ended ($million)	March 31	June 30	Sept. 30	Dec. 31	Total
1996					
Operating revenues	1,439	1,004	711	1,721	4,875
Operating expenses	1,117	855	615	1,501	4,088
Operating income	322	149	96	220	787
Other net expenses	112	109	109	130	460
Income taxes	80	17	(13)	31	115
Net income	130	23	—	59	212
Provision for dividends on preferred shares	5	4	5	5	19
Net income (loss) applicable to common shares	125	19	(5)	54	193
Per common share—basic *(dollar)*	$1.32	$0.16	$(0.06)	$0.54	$1.96

The Company's natural gas distribution businesses are highly seasonal, with the majority of gas deliveries occurring during the winter heating season from mid-October to mid-April. Gas sales during this period typically account for approximately two-thirds of annual gas distribution revenues, resulting in strong first quarter results, second and third quarters that show either small profits or losses, and strong fourth quarter results.

The earnings contribution of the Company's natural gas distribution businesses are also subject to weather variances. Excluding the positive and negative impact of weather, earnings per common share for the Company were $2.06 in 1997 compared with $1.79 in 1996.

For the three months ended (dollar / share)	March 31	June 30	Sept. 30	Dec. 31	Total
1997					
Net income per common share	$1.20	$0.31	$(0.17)	$0.72	$2.06
Weather impact—gas distribution	$0.01	$(0.07)	—	$0.04	$(0.02)
Weather normalized net income (loss) per common share	$1.21	$0.24	$(0.17)	$0.76	$2.04

For the three months ended (dollar / share)	March 31	June 30	Sept. 30	Dec. 31	Total
1996					
Net income per common share	$1.32	$0.16	$(0.06)	$0.54	$1.96
Weather impact—gas distribution	$(0.08)	$(0.06)	$0.01	$(0.04)	$(0.17)
Weather normalized net income (loss) per common share	$1.24	$0.10	$(0.05)	$0.50	$1.79

TEN-YEAR REVIEW

(Unaudited)

	1997	1996
FINANCIAL		
OPERATIONS *($million)*		
Operating revenues	7,312	4,875
Operating expenses	6,519	4,088
Operating income	793	787
Other net expenses	432	460
Income taxes	123	115
Net income from continuing operations	238	212
Discontinued operations	—	—
Net income (loss)	238	212
Provision for dividends on preferred shares	28	19
Net income (loss) applicable to common shares	210	193
Dividends on common shares	122	105
Operating cash flow		
—From continuing operations	522	543
—After discontinued operations	522	543
PER COMMON SHARE *(dollars)*		
Net income (loss)—basic		
—From continuing operations	$2.06	$1.96
—After discontinued operations	$2.06	$1.96
Operating cash flow		
—From continuing operations	$5.10	$5.50
—After discontinued operations	$5.10	$5.50
Dividends	$1.20	$1.05
ASSETS *($million)*		
Fixed assets	8,025	7,304
Investments	195	184
Current assets	1,574	1,328
Deferred charges	281	250
Total assets	10,075	9,066
CAPITALIZATION *($million)*		
Long term debt	4,941	4,743
Preferred shareholders' equity	570	445
Common shareholders' equity	2,056	1,890
Deferred income taxes	400	366
Current liabilities	2,045	1,517
Non-controlling interest in subsidiary companies	63	105
Total equity and liabilities	10,075	9,066

1995	1994	1993	1992	1991	1990	1989	1988
4,184	3,827	3,674	1,818	1,501	1,494	741	729
3,445	3,208	3,107	1,473	1,236	1,240	589	573
739	619	567	345	265	254	152	156
436	360	353	224	177	170	83	76
109	95	68	36	15	22	16	28
194	164	146	85	73	62	53	52
—	—	—	(161)	10	21	13	6
194	164	146	(76)	83	83	66	58
18	13	13	11	6	6	6	6
176	151	133	(87)	77	77	60	52
81	76	65	49	45	44	39	38
384	342	363	233	189	161	96	91
384	342	385	292	249	239	167	151
$2.01	$1.76	$1.70	$1.23	$1.18	$1.03	$0.97	$0.98
$2.01	$1.76	$1.70	$(1.45)	$1.36	$1.41	$1.24	$1.10
$4.41	$3.98	$4.64	$3.88	$3.33	$2.93	$1.97	$1.92
$4.41	$3.98	$4.91	$4.87	$4.39	$4.35	$3.43	$3.18
$0.93	$0.89	$0.82	$0.80	$0.80	$0.80	$0.80	$0.80
7,056	6,390	5,674	5,678	3,535	3,129	1,972	1,927
162	100	32	87	23	111	143	72
994	974	939	844	364	376	140	145
239	182	145	118	102	103	41	17
8,451	7,646	6,790	6,727	4,024	3,719	2,296	2,161
4,715	3,647	3,383	3,396	1,780	1,701	856	829
245	245	120	195	75	75	75	75
1,542	1,417	1,320	1,005	896	850	678	636
396	399	391	593	368	352	327	325
1,441	1,828	1,465	1,400	827	663	309	245
112	110	111	138	78	78	51	51
8,451	7,646	6,790	6,727	4,024	3,719	2,296	2,161

	1997	1996
STATISTICAL		
VOLUMES *(Bcf)*		
Westcoast Energy Pipeline Division	688	667
Foothills Pipe Lines	935	927
Empire State Pipeline	98	101
Ontario Distribution	1,220	1,137
Other Distribution	163	169
	3,104	3,001
RATE BASE *($million)*		
Westcoast Energy Pipeline and Field Services Divisions	2,273	2,114
Foothills Pipe Lines *(proportionate share–Phase I–27%)*	189	193
Empire State Pipeline *(proportionate share–50%)*	129	130
Ontario Distribution	3,043	2,830
Other Distribution	937	888
	6,571	6,155
NUMBER OF CUSTOMERS *(thousand)*		
Ontario Distribution	1,041	1,002
Other Distribution	387	372
	1,428	1,374
COMMON SHARES		
Shares outstanding at year-end	103,245,876	100,747,253
Toronto Stock Exchange price ranges		
—high	$33.50	$24.40
—low	$22.65	$20.00
Number of common shareholders at year-end	8,753	8,499
EMPLOYEES AT YEAR-END *(consolidated–excluding joint ventures)*	5,932	5,991

1995	1994	1993	1992	1991	1990	1989	1988
647	605	579	512	465	401	413	332
920	852	615	534	457	425	408	412
114	43	6	—	—	—	—	—
1,166	1,034	991	317	127	121	—	—
165	160	156	147	139	127	30	31
3,012	2,694	2,347	1,510	1,188	1,074	851	775
1,807	1,353	1,236	1,142	914	831	774	741
193	192	169	157	156	149	151	161
89	92	88	—	—	—	—	—
2,718	2,496	2,304	2,115	489	455	—	—
989	937	899	837	763	499	109	104
5,796	5,070	4,696	4,251	2,322	1,934	1,034	1,006
965	932	892	852	190	183	—	—
358	347	332	318	307	305	14	13
1,323	1,279	1,224	1,170	497	488	14	13
87,972,872	86,444,582	85,318,602	72,678,965	57,255,169	56,487,209	49,488,944	48,329,401
$22.75	$24.63	$22.63	$21.13	$21.50	$22.25	$21.88	$18.00
$19.25	$19.63	$16.25	$15.00	$19.00	$19.63	$15.75	$15.50
8,447	8,782	8,602	7,828	6,043	6,409	7,227	7,725
6,380	6,258	6,043	6,257	3,351	3,331	1,246	1,221

William C. Brown is Chairman of BC Sugar Refinery, Limited. He is a Director of Duke Seabridge Limited and TimberWest Forest Limited. Mr. Brown was first elected to the Board in 1995 and is a member of the Audit and the Human Resources and Compensation Committees.

R. Donald Fullerton is Chairman, Executive Committee and a Director of the Canadian Imperial Bank of Commerce. He was formerly Chairman and CEO of the CIBC, and holds directorships in a number of public companies including George Weston Ltd. and Honeywell Inc. Mr. Fullerton was first elected to the Board in 1993 and is a member of the Audit Committee.

Wilbert H. Hopper was formerly Chairman and CEO of Petro-Canada, and served as Chairman of the Board of Westcoast Energy from 1983 until 1992. Mr. Hopper was first elected a Westcoast Energy Director in 1979. He is Chair of the Audit Committee and is a member of the Executive Committee.

Lorna R. Marsden is President and Vice-Chancellor of York University and is a Director of Manulife Financial and Gore Mutual Insurance Co. Dr. Marsden was elected to the Board in 1995 and is a member of the Audit and the Human Resources and Compensation Committees.

William H. Neville is Chairman of Hession, Neville & Associates, consultants in business government relations, strategic planning and public policy. He was first elected a Westcoast Energy Director in 1988. Mr. Neville is Chair of the Corporate Governance Committee and is a member of the Environment and Employees' Health and Safety Committee.

Marnie Paikin is a Director of Atomic Energy of Canada Limited, a Governor of McMaster University and a Commissioner of the Ontario Human Rights Commission. Ms. Paikin was elected to the Board in 1993 and serves on the Environment and Employees' Health and Safety and the Corporate Governance Committees.

James S. Palmer Q.C. is Chairman of the law firm of Burnet, Duckworth & Palmer, and is Chairman of Telus Corporation, a Director of the Bank of Canada and holds directorships in a number of public companies. Mr. Palmer was first elected to the Board in 1990 and is a member of the Corporate Governance Committee.

Derek H. Parkinson* was a senior officer of Westcoast Energy from 1982 to 1988. He was first elected to the Board in 1983. Mr. Parkinson is a member of the Audit and the Human Resources and Compensation Committees.

Daniel U. Pekarsky is President of The Corporate Advisory Group Inc., financial and strategic planning consultants, and holds directorships in various community organizations. Mr. Pekarsky was elected to the Board in 1993. He is Chair of the Executive and the Human Resources and Compensation Committees and is a member of the Corporate Governance Committee.

Michael E.J. Phelps is Chairman and CEO of Westcoast Energy. He was appointed President and CEO in 1988, and became Chairman in 1992. Mr. Phelps was first elected a Director of Westcoast Energy in 1987 and is a member of the Executive Committee. He serves on the boards of a number of public companies, community organizations and industry associations.

William G. Saywell is President and CEO of the Asia Pacific Foundation of Canada and holds directorships in Spar Aerospace Limited, the Bank of Tokyo Mitsubishi (Canada) and Western Garnet International Ltd. He was formerly President and Vice-Chancellor of Simon Fraser University. Dr. Saywell was elected a Westcoast Energy Director in 1992 and serves on the Environment and Employees' Health and Safety and the Corporate Governance Committees.

Arthur H. Willms is President and Chief Operating Officer of Westcoast Energy. He joined Westcoast Energy in 1971 and was first elected a Company Director in 1983. Mr. Willms serves as a Director of a number of Westcoast Energy companies and is a Director of Crestar Energy Inc. He also serves on the boards of various community organizations and industry associations. Mr. Willms is a member of the Executive and the Environment and Employees' Health and Safety Committees.

W. Robert Wyman is Chairman and a Director of Suncor Energy Inc. He was formerly Chancellor of the University of British Columbia and holds directorships in various public companies including Finning International Inc. and Fletcher Challenge Canada Limited. Mr. Wyman was first elected to the Board in 1993 and is Chair of the Environment and Employees' Health and Safety Committee. He is also a member of the Executive Committee.

Edwin C. Phillips is Director Emeritus of Westcoast Energy. Mr. Phillips, who was CEO of Westcoast Energy from 1975 to 1983, served as a Company Director from 1969 to 1989.

* Not standing for re-election on April 30, 1998.

SENIOR OFFICER AND MANAGEMENT GROUP

CORPORATE

Michael E.J. Phelps
Chairman and Chief Executive Officer
Westcoast Energy Inc.

Arthur H. Willms
President and Chief Operating Officer
Westcoast Energy Inc.

Graham M. Wilson
Executive Vice President and Chief Financial Officer
Westcoast Energy Inc.

D. Michael G. Stewart
Executive Vice President, Business Development
Westcoast Energy Inc.

Kenneth E. Rekrutiak
Senior Vice President and Chief Administrative Officer
Westcoast Energy Inc.

David G. Unruh
Senior Vice President, Law and Corporate Secretary
Westcoast Energy Inc.

James R. Anderson
Senior Vice President, Strategic Development
Westcoast Energy Inc.

HEAD OFFICE

Westcoast Energy Inc.
1333 West
Georgia Street
Vancouver, British
Columbia
Canada V6E 3K9
(604) 488-8000

TRANSMISSION AND SERVICES

Allan L. Edgeworth
President
Westcoast Energy
Pipeline Division
1333 West
Georgia Street
Vancouver, British
Columbia
Canada V6E 3K9
(604) 691-5500

Irvine J. Koop
President
Westcoast Energy Field Services Division
Suite 2200, 333 –
Seventh Avenue S.W.
Calgary, Alberta
Canada T2P 2Z1
(403) 297-1777

Peter Krenkel
President
NGX Canada Inc.
Suite 2330, 140 –
Fourth Avenue S.W.
Calgary, Alberta
Canada T2P 3N3
(403) 974-1700

GAS DISTRIBUTION

Robert T. Reid
President and Chief Executive Officer
Union Gas Limited
50 Keil Drive N.
Chatham, Ontario
Canada N7M 5M1
(519) 352-3100

Brian P. Gabel
President
Union Energy Limited
Suite 1200,
2 Lansing Square
Toronto, Ontario
Canada M2J 4P8
(416) 499-7600

Otto E. Lang (Hon.)
President and Chief Executive Officer
Centra Gas
Manitoba Inc.
444 St. Mary Avenue
Winnipeg, Manitoba
Canada R3C 3T7
(204) 925-0420

Lorne M. Heikkinen
President
Centra Gas Alberta Inc.
5509 – 45th Street
Leduc, Alberta
Canada T9E 6T6
(403) 986-5215

Jac W. Kreut
President and Chief Executive Officer
Centra Gas British
Columbia Inc.
1675 Douglas Street
Victoria, British
Columbia
Canada V8W 3V3
(250) 480-4300

Roy G. Dyce
President and Chief Executive Officer
Pacific Northern Gas Ltd.
Suite 1400,
1185 West Georgia Street
Vancouver, British
Columbia
Canada V6E 4E6
(604) 691-5680

POWER GENERATION

Gerald H. Backeland
President
Westcoast Power Inc.
Suite 600,
666 Burrard Street
Vancouver, British
Columbia
Canada V6C 3M8
(604) 488-8161

INTERNATIONAL

D. Michael G. Stewart
President and Chief Executive Officer
Westcoast Energy
International Inc.
Suite 600,
666 Burrard Street
Vancouver, British
Columbia
Canada V6C 3M8
(604) 488-8161

STOCK MARKET PRICE RANGES, EARNINGS, AND DIVIDENDS PER COMMON SHARE

	Toronto ($Cdn)		New York ($US)		Earnings	Dividends
	Low	High	Low	High	($Cdn)	($Cdn)
1997						
January – March	22.65	25.85	16.50	18.88	1.20	0.29
April – June	23.45	25.70	16.75	18.50	0.31	0.29
July – September	25.25	28.90	18.13	20.88	(0.17)	0.31
October – December	27.35	33.50	19.75	23.50	0.72	0.31
					2.06	1.20

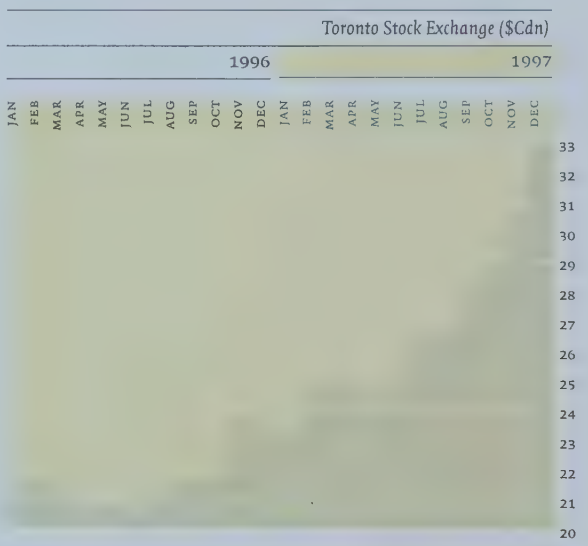
	Toronto ($Cdn)		New York ($US)		Earnings	Dividends
	Low	High	Low	High	($Cdn)	($Cdn)
1996						
January – March	20.00	22.25	14.63	16.13	1.32	0.24
April – June	20.20	21.45	14.75	15.63	0.16	0.26
July – September	20.35	22.00	14.88	16.13	(0.06)	0.26
October – December	21.30	24.40	15.75	18.25	0.54	0.29
					1.96	1.05

KEY DATES

(tentative)

Quarters 1998	Release of Financial Results	Common Share Dividend Payment Dates
1ST	April 30, 1998	June 30, 1998
2ND	July 23, 1998	September 30, 1998
3RD	October 22, 1998	December 31, 1998
4TH	February 17, 1999	March 31, 1999

MONTHLY AVERAGE SHARE PRICE



DIVIDEND REINVESTMENT AND SHARE PURCHASE PLAN

Westcoast Energy's Dividend Reinvestment and Share Purchase Plan provides registered holders of Westcoast Energy common shares and convertible preferred shares with two convenient and economic ways to increase their holdings in the Company.

Registered shareholders may elect to reinvest the cash dividends paid on all or some of their common and convertible preferred shares in additional common shares of the Company, and are also entitled to make optional cash purchases of common shares through the Plan in amounts from $50 to $5,000 per calendar quarter.

The Plan allows participants to acquire new common shares through the reinvestment of dividends at 95% of the average market price as defined in the Plan. Optional cash purchases are made at the average market price. Participants do not pay any brokerage commissions or other fees on the reinvestment of dividends or the optional cash purchase of new shares through the Plan. All notices and enquiries relating to the Plan should be addressed to the Montreal Trust Company at:

Montreal Trust Company
Stock Transfer Services
510 Burrard Street
Vancouver, British Columbia
Canada V6C 3B9
Telephone: (604) 661-0222
Facsimile: (604) 683-3694
Toll Free: (888) 661-5566

STOCK EXCHANGES AND SYMBOLS

Westcoast Energy common shares are listed on the Toronto, Montreal, Vancouver, New York and Pacific stock exchanges.
In Canada – W
In the United States – WE

Westcoast Energy preferred shares are listed on the Toronto, Montreal and Vancouver stock exchanges.
8.08% First Preferred, Series 2 – W.PR.D
6.90% First Preferred, Series 4 – W.PR.E
4.90% First Preferred, Series 5 – W.PR.F
4.72% First Preferred, Series 6 – W.PR.G

REGISTRAR AND TRUSTEE

Debentures
Montreal Trust Company of Canada
Vancouver, Calgary, Regina, Winnipeg, Toronto, Montreal

SHAREHOLDER AND CORPORATE RELATIONS

Shareholders or others wishing to obtain copies of this Annual Report, quarterly reports, the 1998 Annual Information Form, and other corporate documents should contact the Company either by letter, addressed to the attention of the Corporate Secretary, or by telephone at (604) 488-8000.

Portfolio managers, investment analysts, and other investors requesting financial information respecting the Company should contact:

Thomas M. Merinsky
Manager, Investor Relations
Telephone: (604) 488-8021
Facsimile: (604) 488-8192

All other enquiries by shareholders and others respecting the Company should be directed to:

Paul Clark
Vice President, Corporate Communications
Telephone: (604) 488-8093
Facsimile: (604) 488-8068

AUDITORS

Ernst & Young
P.O. Box 10101, Pacific Centre
700 West Georgia Street
Vancouver, British Columbia
Canada V7Y 1C7

REGISTRARS AND TRANSFER AGENTS

Common Shares
Montreal Trust Company
Vancouver, Calgary, Regina, Toronto, Montreal

Registrar and Transfer Company
Cranford, New Jersey

Preferred Shares
Montreal Trust Company of Canada
Vancouver, Calgary, Regina, Winnipeg, Toronto, Montreal

TAXATION

A resident of the United States receiving investment income generated in Canada is subject to withholding tax under the Income Tax Act of Canada and the Canada-United States Income Tax Convention. With certain exceptions, dividends paid by the Company are subject to withholding tax at a rate of 15%.

How to contact Westcoast Energy:
Telephone: (604) 488-8000
Facsimile: (604) 488-8500
Internet: www.westcoastenergy.com

Vice President, Corporate Communications
Paul Clark (604) 488-8093

Manager, Investor Relations
Thomas M. Merinsky (604) 488-8021

Write to us at Westcoast Energy's Head Office:
Westcoast Energy Inc.
1333 West Georgia Street
Vancouver, British Columbia
Canada V6E 3K9

Annual Meeting

The Annual Meeting of Shareholders of Westcoast Energy Inc. will be held in the Plaza Ballroom of the Hyatt Regency Hotel in Vancouver, British Columbia, on Thursday, April 30, 1998, 11:00 a.m. (local time).

Note to our Shareholders

Westcoast Energy Inc. shareholders are urged to study the meeting notice and proxy material accompanying their copy of this Annual Report. For those shareholders not attending the Annual Meeting, it is important that a proxy form is completed and returned as soon as possible to ensure their shares are represented in the voting.

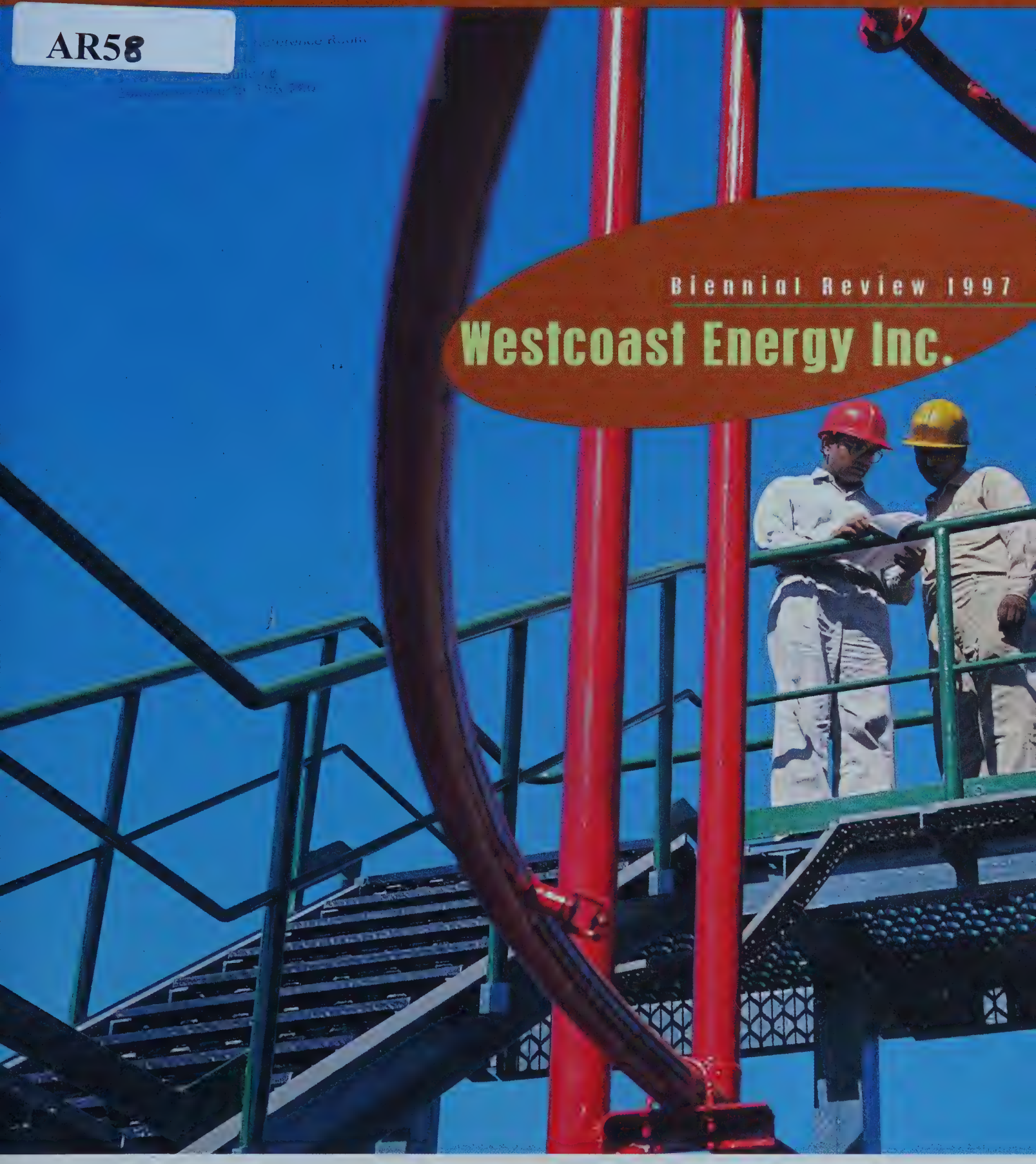
Duplicate Publications

Registered holders of the Company's shares may receive more than one copy of Company publications. Shareholders can assist the Company in eliminating such duplication by contacting the Montreal Trust Company in Vancouver at (888) 661-5566 (toll free).

Cover and Coated Stock:
Centura Gloss
10% total recovered fiber,
all post-consumer fiber

Uncoated Stock:
Resolve Premium Opaque
Over 50% recycled paper including
10% post-consumer fiber

Printed in Canada



Biennial Review 1997

Westcoast Energy Inc.

The Westcoast Energy group of companies includes:

Centra Gas British Columbia Inc. • Centra Gas Manitoba Inc. • Engage Energy • Maritimes & Northeast Pipeline • NGX Canada Inc. • Pacific Northern Gas Ltd. • Trillium USA • Union Energy • Union Gas Limited • Westcoast Gas Services Inc. • Westcoast Energy International Inc. • Westcoast Energy Pipeline and Field Services Divisions • Westcoast Power Inc.

Westcoast Energy

Centra Gas British Columbia Inc.

Centra Gas Manitoba Inc.

Engage Energy

Maritimes & Northeast Pipeline

NGX Canada Inc.

Pacific Northern Gas Ltd.

Trillium USA

Union Energy

Union Gas Limited

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Westcoast Energy International Inc.

Westcoast Energy Pipeline and Field Services Divisions

Westcoast Power Inc.

Environment, Health and Safety Policy Statement

Westcoast Energy Inc., including its subsidiary companies, is committed to protecting the environment and maintaining public and employee health and safety throughout all phases and locations of operations and construction activities both domestically and abroad.

In meeting this commitment, Westcoast is guided by the following key principles:

SUSTAINABLE DEVELOPMENT

Environmental, social and economic considerations will be integrated into the processes of planning, construction and operations to ensure that the environment and human needs are supported both in the present and for future generations.

ENVIRONMENT, HEALTH, AND SAFETY RESPONSIBILITY

Environmental protection, health, and safety are considered to be both corporate and personal responsibilities for Westcoast companies and all their employees.

Further to these principles Westcoast companies will:

Policies and Procedures Develop and maintain corporate policies and procedures that promote health, safety and environmental protection.

Employee Training Provide training to support employee responsibilities with respect to environment, health and safety.

Communication Maintain regular communications with employees, government agencies and the public on environment, health, and safety concerns and issues.

Responsibility Design, construct, operate, and decommission facilities in a safe and environmentally responsible manner and in consultation with affected parties.

Mitigation Minimize and mitigate adverse effects of operations and construction on the environment and local communities.

Monitoring Conduct environment, health, and safety monitoring to identify possible adverse effects and ensure regulatory compliance of company activities.

Efficiency Use energy and resources efficiently and effectively.

Waste Management Manage wastes in a safe and efficient manner, and reduce, recycle, and re-use materials where feasible.

Emergency Response Prepare for, and respond to, emergencies in a timely and effective manner and remedy any environmental damage resulting from company activities.

Reporting Provide timely reports to government, employees, and other interested parties on environment, health, and safety performance issues.

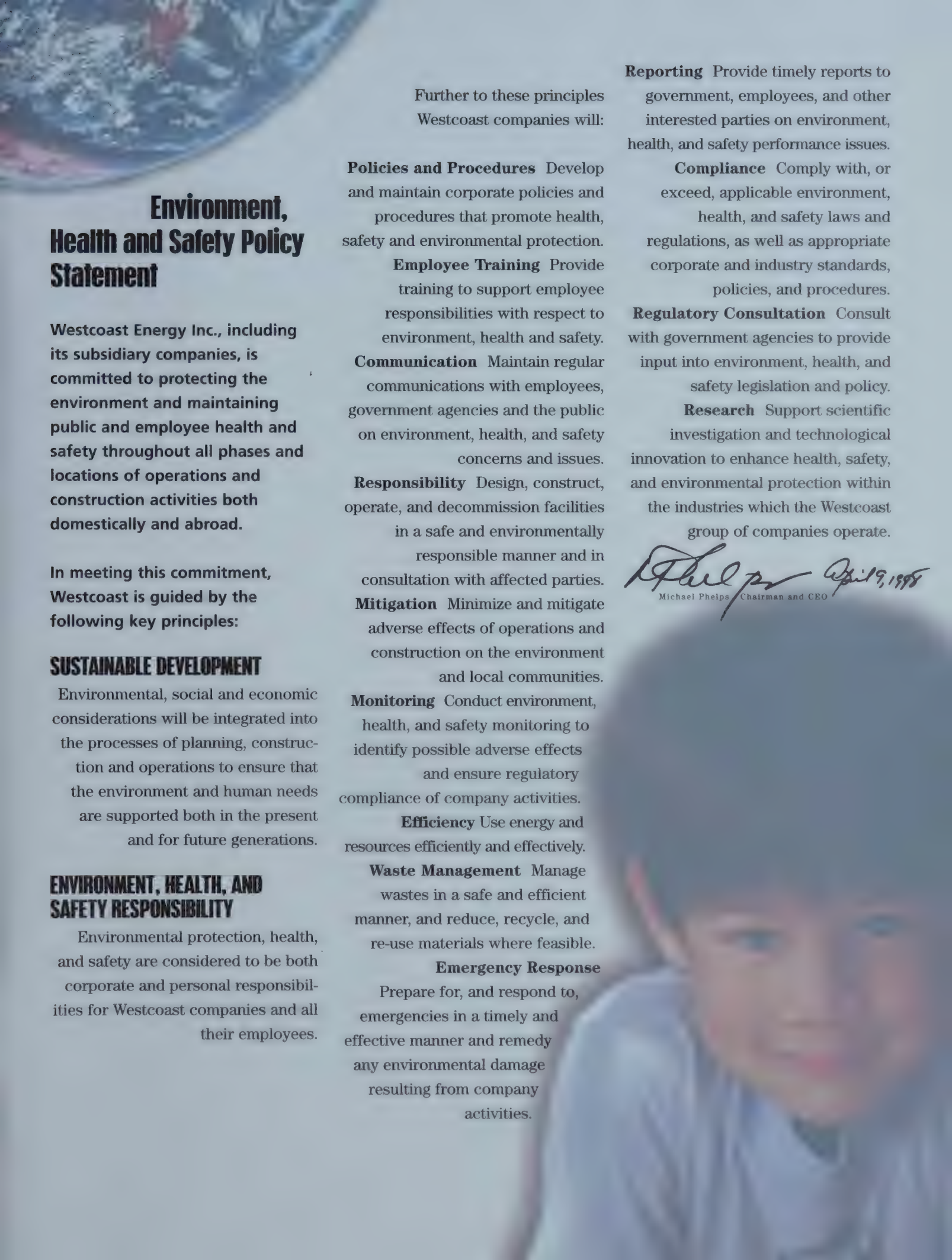
Compliance Comply with, or exceed, applicable environment, health, and safety laws and regulations, as well as appropriate corporate and industry standards, policies, and procedures.

Regulatory Consultation Consult with government agencies to provide input into environment, health, and safety legislation and policy.

Research Support scientific investigation and technological innovation to enhance health, safety, and environmental protection within the industries which the Westcoast group of companies operate.

April 9, 1998

Michael Phelps / Chairman and CEO



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Mr. Basil Phelps, Chairman and CEO

Overview

Table of Contents

* Please note that as of January 1, 1998, Union Gas Limited is the new name for the combined operations of Union Gas Limited and the former Centra Gas Ontario Inc.

Profile of Westcoast Energy

Headquartered in Vancouver, British Columbia, Westcoast Energy Inc. is an integrated energy services company with assets of $10 billion. The Company's interests include natural gas gathering and processing facilities, gas transportation and storage facilities, gas distribution companies, power generation and international energy businesses, as well as financial, information and energy services businesses.

We would like to hear from you. For your convenience, we have enclosed a comment card in this document. Please use it to provide your valuable input for future editions of this review, or to order additional copies. You may also direct your comments in writing to:

Wayne Soper,
Vice President, Environment and Government Relations
Westcoast Energy Inc.
1333 West Georgia Street
Vancouver, British Columbia
V6E 3K9

email: wsoper@wei.org

Introduction

Welcome to Westcoast Energy's Progress in Sustainable Development - Biennial Review 1997. In this, our second review, we present our progress in sustainable development over the past two years.

Westcoast Energy first stated support for the goals of sustainable development in 1994 with the development of our Sustainable Development Principles and formation of our Sustainable Development Council. Since then, our industry has seen a dramatic shift to increasingly competitive and deregulated marketplaces. As this competition intensifies, Westcoast Energy is changing to compete effectively in the rapidly evolving markets for competitive energy services.

That does not mean, however, that our commitment to achieving measurable progress in sustainable development will be compromised. Rather, in our view, sustainable development is simply good business practice that builds competitive advantage. This means that we will continue to pursue a balance among three key objectives: economic prosperity, environmental protection and social equity. It is only by using this "triple bottom line" that we can truly measure our business success and reflect relevant societal values.

At the same time, we believe that many of the new business opportunities we are embarking on are enhancing our commitment to sustainable development. And, as we expand our business reach into new and innovative areas, businesses such as renewable energy generation may offer the means of building the energy services company of the future while addressing the environmental and social issues of the day.

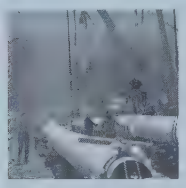
This Biennial Review plays an important part in sharing our record of progress on a complete spectrum of environment, health and safety and community initiatives.

When you speak, we listen.

Your views help shape Westcoast's decisions today and into the future.

Use the pre-paid mail-in card at the back of this book to provide comments and suggestions on this publication.

Profile of Westcoast Energy



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Introduction

Welcome to Westcoast Energy's Progress in Sustainable Development - Biennial Review 1997. In this, our second review, we present our progress in sustainable development over the past two years.

Westcoast Energy first stated support for the goals of sustainable development in 1994 with the development of our Sustainable Development Principles and formation of our Sustainable Development Council. Since then, our industry has seen a dramatic shift to increasingly competitive and deregulated marketplaces. As this competition intensifies, Westcoast Energy is changing to compete effectively in the rapidly evolving markets for competitive energy services.

That does not mean, however, that our commitment to achieving measurable progress in sustainable development will be compromised. Rather, in our view, sustainable development is simply good business practice that builds competitive advantage. This means that we will continue to pursue a balance among three key objectives: economic prosperity, environmental protection and social equity. It is only by using this "triple bottom line" that we can truly measure our business success and reflect relevant societal values.

At the same time, we believe that many of the new business opportunities we are embarking on are enhancing our commitment to sustainable development. And, as we expand our business reach into new and innovative areas, businesses such as renewable energy generation may offer the means of building the energy services company of the future while addressing the environmental and social issues of the day.

This Biennial Review plays an important part in sharing our record of progress on a complete spectrum of environment, health and safety and community initiatives.

Why does Westcoast Energy produce a Biennial Review on sustainable development?

Westcoast Energy is a major Canadian corporation that believes strongly in the concept of sustainable development. Therefore, it is incumbent upon us to issue this kind of review, and to state our progress in terms of sustainable development. It really is a report card on our activities.

This Biennial Review also internalizes the need to continuously improve our performance with respect to sustainable development. In other words, it helps us to see how we have done and motivates our employees do better.

What do you hope to accomplish with this year's Biennial Review?

The review should highlight our progress in sustainable development to date. More importantly, it should point out where we have not yet succeeded and heighten employee awareness of future required actions.

What is the essence of sustainable development to you?

Sustainable development – *meeting the needs of today without compromising the needs of the future* – does not mean that we stop doing what we are doing today. Technological change will continue to occur and change the types of energy sources we use. Therefore, the essence of sustainable development is always balance, that is, balancing of the economic well-being of people today with the requirement of future generations to meet their needs.

Reflecting upon our first Biennial Review in 1995 and that reported this year, what lessons have you learned about progress towards sustainable development?

I've learned that the concept of sustainable development differs between our various stakeholders. But just by engaging in the exercise of writing this review, our understanding of different stakeholder views of sustainable development is increasing.

We've also learned that the concept of sustainable development has not been prominent enough on the "radar screens" of our employees. However, by producing this review, many more people in our company are now thinking of how we can best respond to meeting the criteria and challenges of sustainable development.

In Conversa with Art Willms

Art Willms is President and COO o Westcoast Energy In

This interview took place in December, 1997.

Westcoast Energy

What is your proudest accomplishment with respect to our sustainable development efforts?

I am very proud of the Northern Rockies land use management plan that we participated in during the last year. We were an active participant in the process that led to a significant land use agreement and designation of a vast protected and special management area for future generations.

I am also very proud of our success in developing a number of businesses which make a significant contribution to sustainability, that is providing solutions to environmental or social issues while at the same time providing a viable business opportunity to Westcoast's shareholders. Companies such as Trillium, which develops natural gas vehicle infrastructure, and Union Energy, which is focused in part on providing a range of energy efficiency services, allow us to profitably address local air quality and greenhouse gas concerns while at the same time meeting the expectations of our shareholders.

It is to foster these kinds of solutions that Westcoast Energy developed its corporate Sustainable Development Group. By bringing all of the strategic development efforts under one broad direction and management umbrella we hope to identify more opportunities such as those that I have talked about here.

Natural gas, is of course, a non-renewable resource. How do you respond to the comment that its development and use must therefore be inconsistent with the concept of sustainable development?

Natural gas has only been widely used for about 50 years, a very tiny period of time in the history of the world. And it is probably not going to have a long life because, through technological breakthroughs and developments, other energy sources will be developed. In short, it is an energy form that allows us to bridge our current energy needs with the technological advances and environment needs of the future.

We are also part of the evolution from more carbon-intensive to less carbon-intensive fuels. If we were not using natural gas today, there would be a massive increase in oil and coal use, resulting in dramatic increases in carbon in the atmosphere.

What kind of effect will increasing deregulation and industry competition have on our corporate commitment to sustainable development?

In my view there will be no change in Westcoast's commitment to sustainable development. We are committed to seeking opportunities to re-define our businesses in ways that build the basis for a sustainable company. I believe that a sustainable company is one that addresses both environmental concerns and the concerns of the communities affected by our activities while at the same time meeting the expectations of our shareholders. In this way we can build a company which achieves competitive advantage for the longterm. Whether it be increased acceptance in the international communities in which we would like to operate, more timely resolution of regulatory issues at home or a perception in financial markets that Westcoast faces lower environmental and regulatory risks than average, we see the potential for our corporate commitment to sustainable development to bring its own rewards.

As our operations and services expand overseas, what kind of policies and guidelines will be developed to ensure that investment decisions meet the Environment, Health and Safety standards we have established here domestically?

We are still in the process of formalizing our position, but we will meet or exceed the Environment, Health and Safety standards of the country in which we operate. Whether it is realistic, or even smart, to meet the Canadian standards when operating overseas is still not clear. If the project is sound economically and contributes

to the improvement of the environmental situation in the country in question, then we may still consider it a good project and would proceed even if it does not meet the standards set in Canada.

Many corporations with a traditional reliance on fossil fuels like oil, coal and gasoline are starting to invest in, or partner with, alternative energy companies involved in commercializing wind, solar or fuel cell technologies. Do you expect that future Westcoast Energy investments will focus on these areas?

I certainly feel that Westcoast Energy will become more heavily involved in alternative energy sources in the future and we are working to evolve a strategy in that regard. I do not think that there is any doubt that this will lead to investing in new energy sources.

In your view, what are some of the priority sustainable development areas that Westcoast Energy should be looking at in the future?

Westcoast Energy should continue to look at land use and access issues, and work with stakeholders to limit access to certain areas. We should also continue to focus on more efficiencies in the transportation and delivery of natural gas and make a significant commitment to the conversion of automobiles and buses to natural gas.

A Framework for Sustainable Development at Westcoast Energy

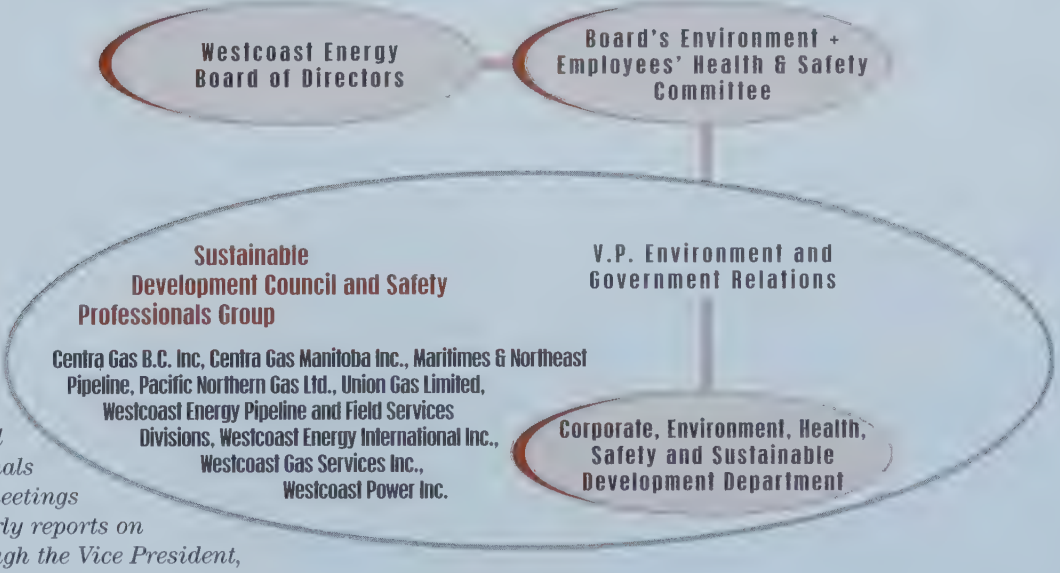
Westcoast Energy's diverse operating companies and subsidiaries offer a broad range of energy products and services. One of our key corporate challenges in attaining meaningful progress in sustainable development is to ensure consistency in the manner in which we manage environment, health and safety (EH&S), and other sustainable development issues, company-wide. In pursuit of this objective, we have developed a framework consisting of management and reporting structures, as well as corporate policies and guidelines.

Management of Environment, Health, Safety and Sustainable Development

Sustainable Development Council

In 1994, Westcoast Energy confirmed a growing commitment to the concept of sustainable development by establishing the Sustainable Development Council (SDC) and developing *Guiding Principles for Sustainable Development.*

The SDC leads the enterprise on environmental issues and works with company professionals on public and employee health and safety, community relations, aboriginal affairs, land use planning and major product development.



Working together is the Westcoast Energy way

The Sustainable Development Council and the Safety Professionals Group hold quarterly meetings and provide quarterly reports on performance through the Vice President, Environment and Government Relations to the Environment and Employees' Health and Safety Committee of the Board of Directors.

The SDC enables the Westcoast Energy companies to:

- realize economies of scale in undertaking EH&S and sustainable development initiatives;
- formulate positions on relevant policies and issues, and;
- communicate these positions as a consolidated group.

The SDC consists of environmental managers and professionals from:

- Centra Gas British Columbia Inc.,
- Centra Gas Manitoba Inc.,
- Maritimes & Northeast Pipeline*,
- Pacific Northern Gas Ltd.,
- Union Gas Limited,
- Westcoast Energy Pipeline and Field Services Divisions,
- Westcoast Energy International Inc.,
- Westcoast Gas Services Inc., and
- Westcoast Power Inc.

* Maritimes & Northeast Pipeline is not a wholly-owned subsidiary of Westcoast Energy and is therefore not included in our *Operating Company Reports* section.

The Safety Professionals Group

Each Westcoast Energy operating company has qualified health and safety personnel who serve as an important resource to company operations. In the Spring of 1997, these representatives formed the Safety Professionals Group (SPG) with the purpose of:

- acting as an advisory body to the Environment and Employees' Health and Safety Committee of the Westcoast Energy Inc. Board of Directors;
- assisting operational groups to continuously improve health and safety;
- working in collaboration with the Sustainable Development Council;
- positioning Westcoast Energy Inc. as a world leader in personal and public safety.

The SPG works toward achieving these objectives by sharing information on safety issues and internal and external best practices, benchmarking with peer groups, and seeking cost-effective and achievable ways to exceed regulatory and public expectations.

Developing close relationships with landowners along our rights-of-way is essential to ensuring public safety and high levels of environmental performance.

How Our Businesses Are Regulated

Rate Regulation: Most of Westcoast Energy's gas gathering, processing, transmission, and distribution businesses are rate regulated. However, this is changing. As we increasingly participate in competitive markets, design more flexible customer service arrangements in rate-regulated markets, and develop new businesses to compete in a variety of marketplaces, Westcoast Energy is evolving into a more commercial, market-based enterprise.

Environmental Regulation: All Westcoast Energy facilities located in Canada are subject to various provincial and federal environmental protection regulations and municipal by-laws. In addition, all projects to develop new facilities undergo government approval processes to identify and address the potential environmental and social impacts.

Environment, Health, Safety and Sustainable Development Department

Westcoast Energy's Environment, Health Safety & Sustainable Development Department (EHS&SD) leads operating companies, through the SDC and SPG, in pursuit of common standards, collective initiatives to improve environment, health and safety performance, and management of emerging issues. The EHS&SD group also liaises directly with other groups within the company on new projects and business initiatives. The department reports to the Environment and Employees' Health and Safety Committee of the Westcoast Energy Inc. Board of Directors.

On an operating company level, each of Westcoast Energy's subsidiaries or divisions incorporates an Environment, Health and Safety management system and structure that reflects its unique business concerns. These groups are accountable to the senior management of their respective companies.

Policies and Guidelines

Two principal documents steer the Westcoast Energy group of companies in pursuit of environment, health, safety and sustainable development objectives:

Environment, Health and Safety Policy Statement

Westcoast Energy's *Environment, Health and Safety Policy Statement* details key principles to guide our corporate commitment to Sustainable Development and Environment, Health and Safety Responsibility. These key principles are further supported by specific policies and procedures that address operations across a broad spectrum of activities, from research and reporting to consultation and communication.

Guiding Principles for Sustainable Development

Westcoast Energy's *Guiding Principles for Sustainable Development* provide an important supporting role to the sustainable development aspects of the corporate *Environmental, Health and Safety Policy Statement.* Specifically, the Guiding Principles address three key areas: Integrated Planning and Stakeholder Consultation, Energy and Materials Conservation and Management, and Science and Technology. The principles provide employees with clear direction toward realizing the long-term environmental and economic responsibilities and opportunities that sustainable development presents.

Sustainable Development Concerns in the Natural Gas Industry

The operations and resource requirements of the natural gas industry give rise to some unique sustainable development concerns. In this section, we review five concerns and the actions taken by Westcoast Energy companies to address them.

Global Climate Change

During extraction, processing, transmission and distribution, the natural gas industry emits greenhouse gases. In addition, the combustion of natural gas results in greenhouse gas emissions.

Although debate continues regarding the link between greenhouse gas emissions and global climate change, there is effective consensus among scientists, governments and policy makers that the potential consequences of climate change are too serious to avoid taking preventative or mitigative steps now.

Natural gas, the least carbon-intensive of the fossil fuels, offers part of the solution to the climate change challenge. For example, increased use of natural gas offers the potential to significantly reduce carbon emissions caused by other more carbon-intensive fuel sources until such time as renewable energy sources and non-carbon emitting fuels become commercially feasible.

However, during extraction, processing, and transmission, the natural gas industry is a significant contributor of greenhouse gases. Our challenge, therefore, is to continue to minimize the level of our emissions. To this end, between 1990 and 1997, the Westcoast Energy group of companies reduced emissions of greenhouse gases per unit of throughput by 18% (Refer to "Key Performance Indicators - GHG Emissions Per Unit Throughput", pg. 49).

Minimizing Emissions Enterprise-wide, Westcoast Energy has undertaken numerous initiatives which contribute to lower levels of greenhouse gas emissions. These include process improvements, energy efficiency and conservation programs, promotion of natural gas cars and buses, and fuel switching.

Westcoast Energy's distribution companies, as well as Union Energy Services and Trillium USA, have been particularly active in this area. Additional details on these initiatives are found in subsequent sections of this Biennial Review and in Westcoast Energy's annual *Voluntary Challenge and Registry Action Plan.*

Mitigating Emissions As governments and industry move forward to meet the emissions reduction objectives agreed upon in the Kyoto Protocol of December 1997, it is crucial for Westcoast Energy and the business community at large to address both the economic and environmental challenges posed by this agreement. To this end, we are working cooperatively to promote the use of market-based instruments such as emissions reduction trading, joint implementation, the *Clean Development Mechanism* and changes to the existing tax structure that would facilitate the transition to a less carbon intensive economy.

One example of this approach is the pilot project undertaken with Westcoast Power's cogeneration facilities. This project is developing methodologies which would allow Westcoast Energy to capture commercially acceptable ownership of greenhouse gas emissions reduction *credits* generated by such operations.

Westcoast Energy is also a founding member of GEMCo (Greenhouse Emissions Management Consortium), a consortium of ten energy companies working to facilitate the development of emissions reduction *offsets* and emissions trading and a participant in a Canadian Energy Research Institute project to examine potential changes to the Canadian Capital Cost Allowance (taxation) Schedules to address climate change concerns.

Westcoast Energy's Ontario subsidiary, Union Gas Limited, is working with the Ontario government on the Pilot Emission Reduction Trading project (PERT). In British Columbia, Westcoast Energy is working through GEMCo as well as directly with the governments of B.C., Alberta, Saskatchewan and Nova Scotia, and the federal government, on a pilot program for greenhouse gas emission reduction trading.

Non-Renewable Resource

Current information indicates that North America has abundant and growing reserves of natural gas. However, natural gas is a non-renewable resource.

Much of the world's energy needs will be met by fossil fuels for a considerable time to come. However, we believe that future generations will increasingly rely on renewable and non-carbon emitting energy sources. In the meantime, increased use of natural gas offers significant environmental benefits globally, regionally and locally, and allows it to fulfill an important transition role.

The Westcoast Energy group of companies are active in the promotion and use of clean air natural gas vehicles.

Therefore, we believe that the most important sustainable development concerns relating to the use of natural gas are the long-term environmental and social effects of their use and the impact of these effects on future generations. Our challenge in progressing towards sustainable development is to minimize and mitigate these effects, and to be an active part of long-term sustainable energy solutions.

For this reason, Westcoast Energy companies are active in efforts to reduce emissions, increase energy efficiency and conservation, and support the communities in which we operate.

Public and Employee Safety

Both raw and processed gas must be carefully managed to ensure public and employee safety from accidents, and effective response in the case of an emergency.

Westcoast Energy understands that the sustainability of our business depends on operating in a manner that is safe to the public and our employees. We believe that the gas stream, from the well-head to the burner tip, must be carefully managed to ensure safety from accidents and effective response in the case of an emergency.

Prevention Westcoast Energy designs, engineers, operates and closely monitors all our facilities to maintain their integrity and safety. The infrastructure that delivers the gas from its natural underground reservoirs to our customers undergoes continual assessment for hazards. In addition, our employees receive comprehensive training and support materials to ensure they have the knowledge and skills to conduct their responsibilities safely.

Careful monitoring of our processing, transmission and distribution facilities is an important part of Westcoast's efforts to ensure employee safety and the safety of communities in which we operate.

We also partner with landowners and other members of the public to ensure:

- rights-of-way remain free of structures, buildings and objects that are not related to our operations and that could become a safety or emergency response problem;
- local residents and employees know what to do in the event of a pipeline incident;
- customers know how to use natural gas safely in their homes and are aware of the location of shut-off valves and meters.

Response In Canada, all regulated facilities handling natural gas must have emergency response plans developed in consultation with regulatory authorities.

Our gas distribution companies work with local fire departments and other response agencies to ensure correct actions for preventing and responding to gas emergencies. Activities include routine leak detection surveys, frequent site inspections, the distribution of up-to-date gas system maps and the dissemination of information at appropriate community events.

Over the past two years, Westcoast's Pipeline and Field Services Divisions, which operate the British Columbia gathering, processing, and transmission systems, have enhanced their emergency response plans with input from local communities and regulatory authorities. In addition, the divisions have implemented a Geographic Information System that provides employees with increased accessibility to emergency response information.

Land Use Conflicts

Construction activities can impact landowners on or near rights-of-way, and increase potential human access to wilderness and wildlife habitat.

Right-of-Way Management Many of the pipeline rights-of-way required for transmission and distribution systems must be constructed across private land. In recent years, in spite of the National Energy Board's (NEB) Early Public Notification Program, some proposed pipeline routings have created conflicts with landowners, particularly in Ontario and the Maritimes. Over the past two years, in an effort to address these concerns, Westcoast Energy has worked with the Canadian Energy Pipeline Association (CEPA), the NEB, and concerned landowners to develop a more effective system of addressing right-of-way conflicts. This process resulted in the CEPA Landowner Policy Statement and Guiding Principles.

In addition, CEPA developed recommendations for a NEB Enhanced Landowner Participation Process.

Access to Wilderness and Wildlife Habitat Potential land-use conflicts may arise as a result of the access to wilderness and wildlife habitat created by industry activity. For example, the corridors resulting from the development of pipeline rights-of-way and exploration survey lines can provide access for all-terrain vehicles. They also create an unobstructed line of sight to both human and animal hunters.

Part of the resolution to this issue lies in effective land use planning which considers the needs of all stakeholders. Under the working title *Northeast B.C. 2005 Initiative*, Westcoast Energy brought the British Columbia natural gas producing community together with various government agencies and stakeholders to develop a more efficient environmental and land-use review and approval process for natural gas projects. The result was a Memorandum of Understanding (MOU) signed on July 31, 1996 by Westcoast Energy, the Canadian Association of Petroleum Producers and a number of government agencies. The MOU lays out the ground rules and sets a framework to manage land use conflicts, and outlines procedures to resolve disputes should they arise.

Over the past four years, as a member of the Land and Resource Management Planning group in Northeastern B.C., Westcoast Energy has worked with the British Columbia government, other industry sectors, and environmental and recreation groups to establish the Muskwa-Kechika, a protected and special management area in the Northern Rockies. Negotiations culminated in a unique, consensus-based agreement announced by the provincial government on October 8, 1997. The agreement covers a total of 4.4 million hectares, one quarter of which is set aside as 11 permanently protected areas. The remaining land is subject to restricted development and special management in the forestry, mining, and oil and gas sectors.

The Muskwa-Kechika region of northern B.C., shown below, will be a new model for managing resource development and environmental protection needs in British Columbia.

Aboriginal Relations

Westcoast Energy has an interest in building broader communication and closer ties with First Nations, in order to conduct its operations effectively, meet its obligations and position itself for mutually beneficial business opportunities.

Westcoast Energy believes that to maintain its strong relations with First Nations, and to benefit from joint business opportunities that are emerging, it can exercise leadership by renewing its relationships with Aboriginal peoples in Canada. Since 1991, Westcoast Energy has consciously recognized Aboriginal people in its activities by acknowledging Aboriginal rights and recognizing their environmental, cultural and economic concerns.

Where we operate within or near traditional Aboriginal territories, Westcoast is involved directly with the local communities. Our companies provide educational funding and summer employment for Aboriginal people and entry into the economy through Aboriginal business development activities. In addition, we work with Aboriginal leaders, industry and government on initiatives in economic and business development.

One recent example of our approach is an employment-motivated agreement that originally started in 1989 between Westcoast Energy's Pacific Coast Energy Corporation (PCEC) and the Cowichan Tribes, and has since developed into an independently run company employing 65 people.

In 1989, PCEC met the Cowichan Tribes while seeking rights-of-way for PCEC's natural gas transmission line on Vancouver Island. Discussions with the Cowichan led to the idea of having band members help construct distribution lines. To accomplish this, Westcoast Energy helped the Cowichan find a partner with appropriate financial backing and expertise – Northern Pipeline. The Cowichan's economic development agency, Khowutzun Development Corporation (KDC) and Northern Pipeline created Khowutzun Pipeline Constructors Limited, which won its first contract in 1991 with Westcoast Energy's Centra Gas BC. When the term of the joint venture came to an end, KDC reorganized the company into the 100% Cowichan owned Khowutzun Mustimuhw Contractors Ltd., which is now involved with about 35 percent of Centra Gas B.C.'s work on Vancouver Island.

In the fall of 1997, Westcoast Energy also undertook a comprehensive renewal of Aboriginal relations through a process of internal and external discussion intended to define the interests of Westcoast companies and Aboriginal peoples. Aboriginal community leaders and service organizations were asked for their views on how to manage the relationship for long-term mutual benefit. From the information we gathered, we then created a statement of principles to guide the relationship in a mutually favourable direction.

To bring these principles to life, we are now developing implementation programs in consultation with Aboriginal communities and organizations. Program areas include leadership, employment, communication and consultation, education and community economic development. Over the coming years, Westcoast Energy will continue to renew and implement its strategies in these program areas.

Westcoast Energy works closely with Aboriginal communities to provide joint business development opportunities.

Follow-Up on 1995 Plans

The Westcoast Energy Progress in *Sustainable Development – Biennial Review 1995* presented a consolidated list of activities that the Westcoast Energy group of companies intended to undertake during 1996/97. In this section, we identify the corporate-wide activities and report on their progress over the past two years. The follow-up activities undertaken by individual operating companies are found in a separate section called *Operating Company Reports.*

Environment, Health and Safety Management Systems

- **Review/upgrade/implement environment, health and safety management systems**

Over the past year, the Sustainable Development Council drafted environment, health and safety management system (EMS) standards to guide the development of EMSs enterprise-wide. These standards are intended to provide a consistent EMS approach among the Westcoast Energy group of companies and to provide a clear standard against which to measure corporate and facility audit programs.

Auditing Procedures

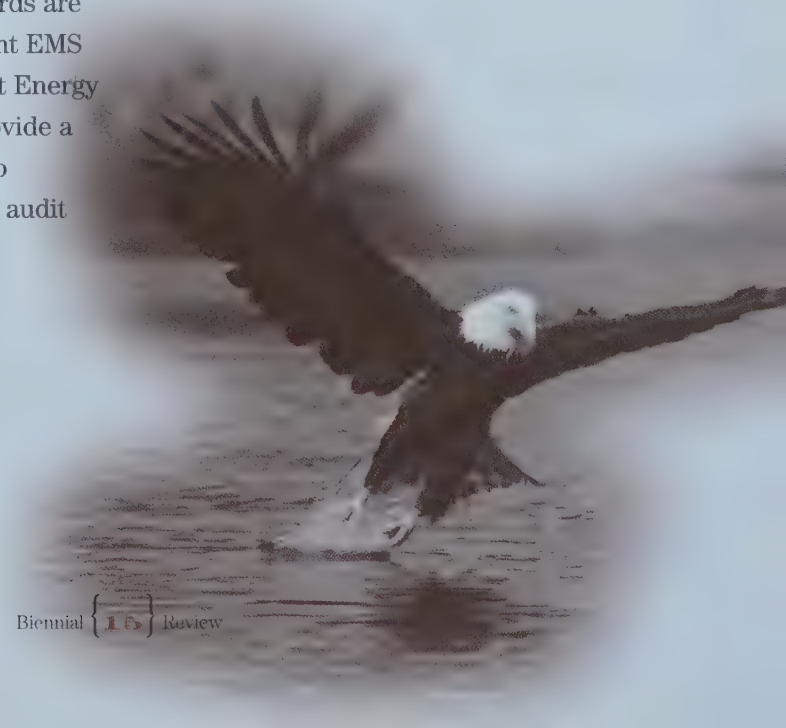
- **Review/upgrade environment, health and safety auditing procedures**

The Sustainable Development Council has also drafted EH&S audit standards. These standards will ensure that company environmental, health and safety programs provide comparable audit information among the Westcoast Energy group of companies.

Environmental Accounting

- **Implement environmental expenditure and liability accounting system**

In 1997, the Sustainable Development Council initiated a process for identifying and tracking environment, health, safety, and emergency preparedness costs. In this Biennial Review, operations and management (O&M) environmental expenditures are included in the section entitled Environmental Expenditure Summary.



Greenhouse Gas Emissions

- **Inventory greenhouse gas emissions and establish targets**
- **Research and refine greenhouse gas emissions inventories and measurement of reductions**

In support of the federal government's Voluntary Challenge and Registry (VCR) program, the Westcoast Energy group of companies have monitored greenhouse gas emissions. Efforts continue to ensure better consistency, quality, and comparability of inventories.

In 1997, the Westcoast Energy group of companies submitted the first consolidated enterprise-wide *Voluntary Challenge and Registry Action Plan.*

Our Environment, Our Responsibility Training

- **Develop and implement a comprehensive environmental education and training program for employees**

In 1996, the Sustainable Development Council began developing an environmental training program called *Our Environment, Our Responsibility (OEOR).* The eight module program is tailored to the environmental considerations in the natural gas industry.

The first three modules address basic environmental principles and policies relevant to all employees. The subsequent modules are customized to the requirements of our line employees. The delivery of the OEOR program began during 1997 and will continue throughout 1998.

Performance Measures

- **Develop objectives, targets and performance indicators specific to each of the Guiding Principles to measure, monitor and improve performance**
- **Establish objectives, targets and performance indicators within line departments to support the corporate performance measures**

Over the past two years, the Sustainable Development Council has refined a group of key performance indicators (KPIs) that report environment, health and safety performance to the board of directors and external stakeholders.

Throughout this process we have designed our KPIs to:

- be relevant to our business;
- reflect actual performance;
- enable managers to identify and correct problems;
- facilitate comparative analysis with other companies; and,
- be conducive to setting targets.

The KPIs included in this Biennial Review reflect the above considerations but remain a work in progress (see page 46).

Future Plans

Voluntary Challenge and Registry Targets

Westcoast Energy is a participant in the federal government's Voluntary Challenge and Registry (VCR) and, in 1997, prepared a report that consolidated corporate-wide data. This report met the VCR's criteria for a second more rigorous tier of reporting, with the exception of setting emission reduction targets. Westcoast Energy remains committed to supporting voluntary approaches that address climate change, including the VCR program. During the coming year we will take steps to meet all second tier requirements, including development of emission reduction targets.

Key Performance Indicator Targets

Westcoast Energy will continue the development of approaches to better understand the cost of meeting our environmental goals.

Investment Abroad

Westcoast Energy is pursuing energy projects in a wide range of locations, both within Canada and in foreign countries. Foreign investment presents us with new opportunities as well as new challenges. Recognizing these challenges, Westcoast Energy has developed a new corporate environment, health and safety policy statement which includes a commitment to protecting the environment, and maintaining public and employee health and safety throughout all phases and locations of operations and construction activities, both domestically and abroad.

The Westcoast Energy group of companies have developed a variety of public education programs on natural gas use as well as energy conservation. Programs for school-aged children receive special attention.

Operating Company Reports

Operating Company Reports

Introduction to Operating Company Reports The member companies of Westcoast Energy's Sustainable Development Council share many common sustainable development issues and challenges. They also face additional issues and challenges that are unique to their operating environments. In this section, we report on some of the key health, safety, environment and sustainable development activities conducted by the Westcoast Energy group of companies over the past two years.

These company reports are organized into three sections: **Current Operations**, **Progress on 1995 Plans** and **Future Plans**.

Current Operations

This section includes descriptions of programs and activities involving safety and environment audits, environmental initiatives, health and safety programs and community involvement.

Progress on 1995 Plans

This section addresses the list of future plans presented in our 1995 Biennial Review. If a company report does not include this information, it is because none of the plans reported in our last Biennial Review were attributable to it.

Future Plans

This section presents the environment, health, safety and sustainable development activities that each operating company plans to implement over the coming two years. Progress on these activities will be reported in our next Review.

Legend

Each of the Current Operations stories included in the company reports is identified by an icon to indicate its category:

Community | Health and Safety | Environment

Westcoast Energy Inc. Group of Companies

This map provides an overview of each of the Westcoast Energy companies and their principal products and services:

Centra Gas

Centra Gas British Columbia Inc. ❶
transports and delivers natural gas to more than 54,000 residential, commercial and industrial customers on Vancouver Island and the Sunshine Coast, northwest of Vancouver. Centra BC also provides piped propane to Whistler, B.C.

PNG

Pacific Northern Gas Ltd. ❷
transports and delivers natural gas to more than 38,000 residential, commercial and industrial customers in west-central and northeast British Columbia. Westcoast Energy Inc. owns 41% of PNG and controls 100% of the voting shares.

Centra Gas

Centra Gas Manitoba Inc. ❸
transports and delivers natural gas to more than 238,000 residential, commercial and industrial customers throughout the province of Manitoba.

Union Gas Limited ❹
an amalgamation of Union Gas Limited and Centra Gas Ontario Inc., provides energy delivery and related services to more than one million residential, commercial and industrial customers in the province of Ontario.

Westcoast Energy Pipeline and Field Services Divisions ❺ own and operate an integrated natural gas pipeline system that gathers, processes and transports gas from northeast B.C. to markets primarily in southern B.C. and the Pacific Northwest United States. The integrated pipeline system includes 1,900 miles of gathering pipelines, five processing plants ▲ and approximately 1,600 miles of transmission pipelines.

Maritimes & Northeast Pipeline ❻
Westcoast Energy owns 37.5% of the Maritimes & Northeast Pipeline project and will oversee the construction of the Canadian portion of the pipeline. The pipeline will bring natural gas from offshore Nova Scotia (near Sable Island) to markets in the Canadian maritime provinces and the northeastern United States.

Westcoast Gas Services Inc., □
owns four unregulated gas processing facilities operated by the Westcoast Energy Inc. Field Services Division.

Westcoast Energy International Inc.
■ employs the technical and commercial skills of its parent company in pursuing energy-related projects in select international locations. It is currently active in Australia, the Asia-Pacific Region and Mexico.

Westcoast Power Inc. ☆
is one of Canada's largest independent power producers with more than 400 megawatts of cogeneration power in operation or under construction.

Except where noted, all companies are wholly-owned subsidiaries of Westcoast Energy Inc.

ENGAGE

Engage Energy ◆ is an unregulated merchant and management services business venture, owned jointly by Westcoast Energy and The Coastal Corporation, an oil and gas company with headquarters in Houston, Texas, and Calgary, Alberta. Engage markets, sells, purchases, exchanges and trades natural gas and electric power on a physical or financial basis. It also provides advisory and risk management services relating to the marketing, procurement, consumption, and use of natural gas and electric power.

Non-traditional subsidiaries:

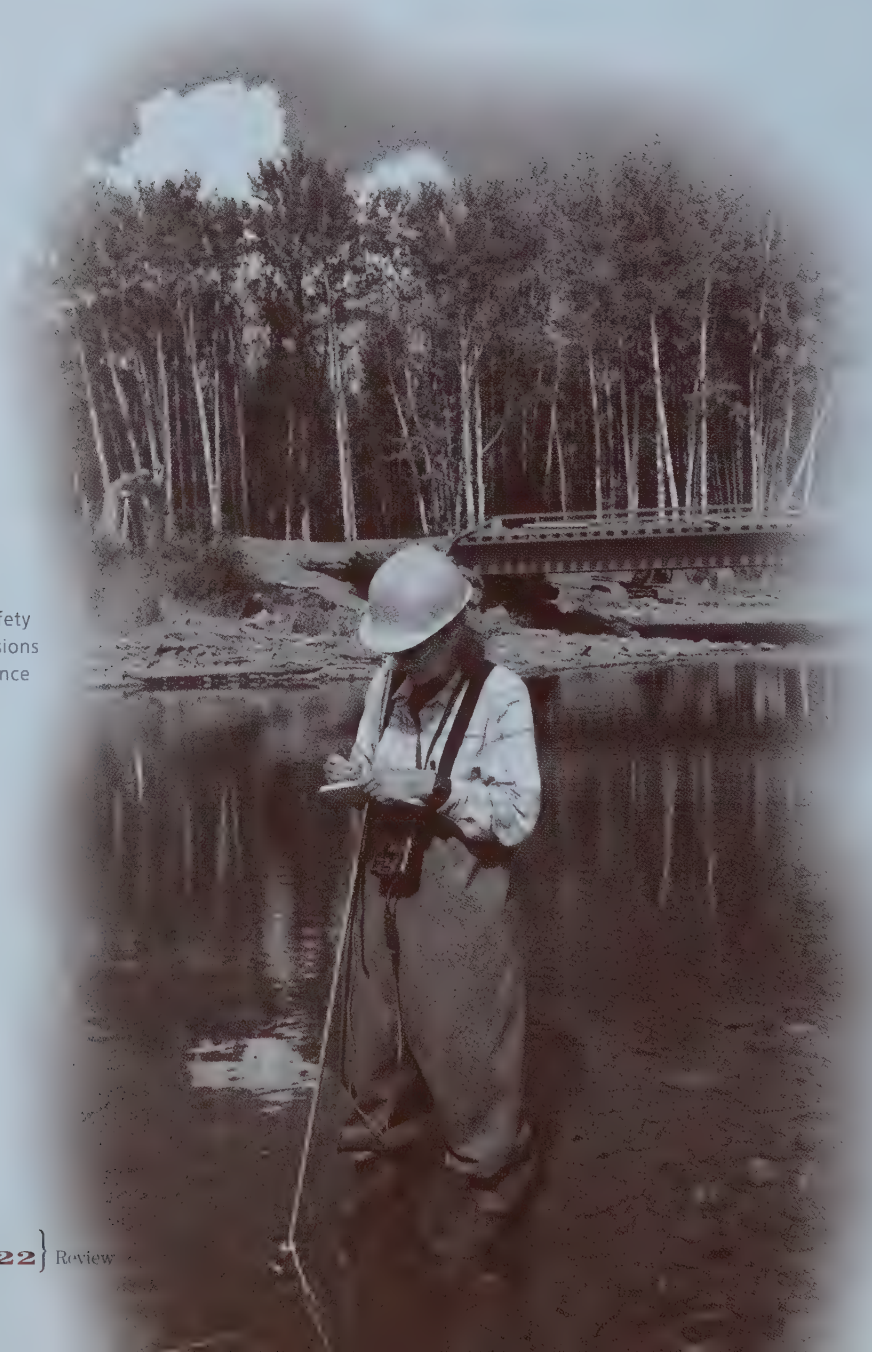
Trillium USA

Trillium USA Inc. △ formed in 1994, provides operational experience, technical expertise, financing and energy supply to the growing international market for natural gas vehicles. Trillium is active in the U.S., Canada and Latin America.

Union Energy ○ combines Westcoast Energy's former energy services businesses in one enterprise. The company offers a complete range of services including energy retailing, energy management, and equipment sales, rentals, financing, and servicing.

NATURAL GAS EXCHANGE

NGX Canada Inc. ◇ was established by Westcoast Energy in 1994. NGX, a natural gas exchange based out of Calgary, operates an electronic commodity exchange for natural gas at four Canadian market centres. The system operated by NGX is capable of being expanded to include emissions commodity trading.



Westcoast Energy's Environment, Health and Safety specialists regularly monitor air and water emissions to ensure that the Company remains in compliance with applicable provincial regulations.

Centra Gas

Centra Gas British Columbia Inc. (Centra BC)

At Centra BC, EH&S is the responsibility of facility management, as assisted by environmental and health and safety personnel at head office.

Current Operations

Environmental Audit Program

In 1997, Centra BC staff visited all 34 of the company's main facilities to conduct a general environmental compliance review. These visits involved a questionnaire and detailed interviews based on legal requirements and company policies and procedures. The most significant issue identified in the audits involved the appropriate storage of glycol and solvents. Otherwise, all sites were assessed to be operating acceptably. To date, most issues identified in the assessment have been rectified.

Natural Gas Vehicles Centra BC is committed to developing Vancouver Island's Natural Gas Vehicle (NGV) market. Recently, with the cooperation of Centra BC and other organizations, the Natural Gas Vehicle Alliance of B.C. opened the first NGV supply station on Vancouver Island. Two more stations are planned for the Island in the near future. Centra BC has been supporting this initiative by offering conversion grants to drivers, ranging from $500 to $2,000, depending on the number of gigajoules consumed. The company has also implemented a policy in all locations served by commercial natural gas refuelling facilities. At these locations, all new work and passenger vehicles in specific categories will be purchased or leased as dual fuel, natural gas/gasoline.

Nitrogen Plugs Reduce Methane Emissions When gas mains are installed, they must be purged of gas before becoming operational. This normally results in the release of natural gas (methane) to the atmosphere. To address this problem, Centra BC has piloted a technique on small diameter pipes in which a nitrogen plug is pushed through the line ahead of the natural gas. The result is that nitrogen, which offers no adverse impacts on air quality or greenhouse gases, is purged rather than natural gas. If the pilot proves successful, the technique will be used throughout the system and shared as a "best practice" with others.

Stawamus Slide The alignment of a pipeline constructed by Centra BC in 1990 follows an old logging road right-of-way, parallel to the Stawamus River near Squamish, B.C. The river is the drinking water source for approximately 80% of Squamish's population. At one location about 1.3 kilometres upstream of Squamish's drinking water intake, the old logging road crossed a steep, historically unstable slope. To avoid this slope, Centra BC constructed the pipeline by tunneling through solid rock beneath and behind the area. While no impacts from the construction have yet occurred, future slides in this area could have short-term impacts on Squamish's water quality in the event that such a slide should reach the river.

The District of Squamish has raised concerns that pipeline construction has increased the likelihood of a slide. Stabilizing the slide is not feasible; however, Centra BC does monitor the area for significant ground movement. In addition, Centra BC is participating in contingency planning with the District and affected groups. At the same time, for a variety of reasons, the District recognizes that the Stawamus Valley is not a good source for long-term drinking water and is actively searching for an alternate groundwater source to replace it. Centra BC is exploring ways to aid this search.

Safety in the Community Since 1991 when natural gas became available on Vancouver Island, Centra BC has worked hard to build public safety awareness for natural gas in the community. This has involved the distribution of bill inserts, the presentation of safety talks at local home shows and support for the provincial *"Call Before You Dig"* program.

In addition, Centra BC has conducted several public workshops to address issues on earthquake preparedness and awareness. The workshops have involved experts from the federal Geosciences Centre and SoCal Gas, a Californian gas company with expertise in earthquake preparedness.

Future Plans

New Technology to Reduce Nitrogen Oxide (NO_X) Emissions Centra BC is currently expanding its first compressor station and plans to construct at least one new one in the near future. In both cases, dry low NO_x technology will be used to control NO_x emissions. Unlike conventional NO_x emissions control systems, this new system does not use liquids as a coolant or to control NO_x emissions. As a result, unlike conventional technology, the use of this emission control system will result in essentially zero effluents.

Environmental Management System Update In 1998, Centra BC will review its environmental management system to ensure recent provincial regulatory changes such as the Forest Practices Code, Fish Protection Act, and the implementation of new contaminated sites legislation, are adequately addressed. In addition, habitat protection, spill response, and contaminated soil management will be reviewed.

Environmental Cost Tracking Over the next several years, Centra BC plans to implement better environmental cost tracking and incorporate it into routine accounting procedures. The system will enhance the company's environmental management and facilitate participation in emission credit trading programs.

Centra Gas

Centra Gas Manitoba Inc. (Centra Manitoba)

Environment and sustainable development are the responsibility of the Facilities Administration and Environmental Affairs Department of Centra Manitoba. Health and safety are the responsibility of the Health and Safety Department.

Current Operations

Environmental Audit Program

In 1996, Centra Manitoba initiated regular environmental auditing of its operating facilities. Four major facilities were audited and no major deficiencies were identified. In 1997, seven smaller operating facilities and representative field facilities were audited. There were no significant findings from these audits. Sites and facilities will continue to be audited every two to five years, depending on the size and risk factors involved.

All audit results are shared with the Company's Board of Directors, Executive, and affected management and operating personnel. Action plans to address shortcomings are developed jointly with Environmental Affairs and relevant departments.

Emission Reduction Measures

Centra Manitoba has implemented a variety of measures that have reduced methane from its facilities, including:

- new station design standards resulting in emission reductions of .003kt CO_2e (carbon dioxide equivalent kilotonnes) per station per year;
- the application of new technologies for pressure regulation;
- the application of technology that eliminates venting for odourant transfer – resulting in emission reductions of .01kt CO_2e per station per year; and,
- the replacement of existing compression fittings on pipelines with new technology fittings that reduces emissions by .001kt CO_2e per fitting per year.

Property Transaction Screening Process Centra Manitoba has a property transaction screening procedure in place to assess all lands and properties the Company owns or is considering to acquire. In 1997, the Company completed an extensive review of all its property holdings to determine what, if any, environmental concerns exist with these properties.

Recycling Program Centra Manitoba has an active recycling program in place. A recent waste audit indicates that 35% of the company's waste is being recycled (15,000 kg). This includes paper, scrap metal, cardboard, aluminum and steel cans, tires, automotive batteries and, more recently, scrap plastic pipe.

Hazardous Waste Management Handbook In 1997, Centra Manitoba developed a comprehensive waste management handbook for employees. It identifies hazardous wastes in the workplace, presents procedures to properly handle, store and dispose of hazardous wastes, and details regulatory considerations.

New Health and Safety Program

In 1996, a joint union-management team at Centra Manitoba met to develop a new employee-driven health and safety program that focuses on creating a culture of safety awareness. The program includes a change in the structure from three traditional safety committees to nine front-line employee safety teams which manage safety issues within their areas. It also includes one safe operations committee which manages corporate wide issues and supports and coordinates the nine safety teams. The program has enjoyed significant success, resulting in fewer workplace accidents and an increasing level of awareness among employees.

Community Support and Involvement

During early 1997, when forecasts suggested that the Red River Valley would be vulnerable to unusually high flood levels, Centra Manitoba pinpointed gate stations and customers that could be at risk, identified training and equipment requirements, and developed comprehensive action plans. As flood waters began to rise, approximately 4,000 customers in more than 13 communities had their natural gas service shut off to ensure public safety.

Later, re-entry into the evacuated areas was coordinated through a mobile command centre to ensure that services were restored in a timely manner. In the end, the coordinated actions of Centra Manitoba employees helped to protect community residences and company equipment from the impact of the flood.

Progress on 1995 Plans

Manufactured Gas Plant Site

- **Investigate and clean up manufactured gas plant site**

Centra Manitoba owns a site in Winnipeg that was once occupied by a coal gasification plant originally owned and operated by Manitoba Electric and Gas Company. In 1993, Centra Manitoba completed a site assessment that indicated the presence of coal tars, napthalene, and PAHs (polyaromatic hydrocarbons) contamination. A pilot bioremediation program, begun in 1997, was successful. The Company will continue to monitor both adjacent river sediments and locations on site to determine if further remedial intervention is required.

Future Plans

Greenhouse Gas Offset Programs

During the next two years, Centra Manitoba will evaluate and pursue programs to reduce greenhouse gas emissions through offsets projects. Centra Manitoba will begin by developing a proposal to promote tree planting with the involvement of local community groups. Other programs under consideration include carbon sequestration through landfill gas management and further integration with corporate climate change initiatives.

Spill Training Centra Manitoba will pursue hands-on spill training in 1998. The program, using a train-the-trainer approach will address Workplace Hazardous Materials Information System/Transportation of Dangerous Goods requirements, spill kit equipment, protective clothing, and effective spill response and reporting procedures.

Centra Gas Manitoba is developing a greenhouse gas emission offset proposal involving the promotion of tree planting in Manitoba. As they grow, the trees will absorb carbon dioxide that might otherwise trap the sun's energy and contribute to climate change.

Current Operations

Environmental, Health and Safety Audit Program In 1996, PNG performed facility audits at its compressor stations and a preliminary assessment of its Tumbler Ridge Gas Plant. The compressor station audits were performed jointly with both PNG and Westcoast Pipeline and Field Services personnel.

In 1997, external audits were performed on both the Environmental Management System (EMS) and the Safety Management System (SMS). As a follow-up to the EMS audit, PNG will hold a workshop attended by directors and senior staff to review the audit findings and develop the next stage in the action plan for improving the management system.

The SMS audit indicated that PNG is committed to ensuring that health and safety issues are well integrated into everyday operations. However, the auditor recommended that PNG could further strengthen this commitment by ensuring that Occupational Health and Safety Committees direct their activities according to annual goals and objectives. The audit also recommended the implementation of a formal "Hazard Recognition, Evaluation and Control" training program to ensure that workplace inspections and audits can be carried out routinely by all operating staff.

Pollution Prevention at Tumbler Ridge Gas Plant To improve environmental performance at its Tumbler Ridge gas plant, PNG has been implementing a pollution prevention program over the past two years. So far, the program has resulted in a 400 tonnes per year reduction of sulphur dioxide emissions and eliminated the generation of five tonnes of hazardous waste per year. These measures have saved the company $20,000 per year in waste discharge fees and have reduced fuel gas consumption by almost 50%.

Developing Environmental Performance Indicators Under the direction of the National Roundtable on the Environment and the Economy, Pacific Northern Gas is participating on a task force that is developing and testing "eco-efficiency indicators" to assist companies and industries to measure their environmental performance. On behalf of the Westcoast Energy Sustainable Development Council, the company is currently testing the feasibility of the core set of indicators developed by the task force in late 1997. The company will be presenting the results of the feasibility study to leading representatives of industry, government and non-government organizations in 1998.

Pacific Northern Gas Ltd. (PNG)

Environment, health and safety at PNG is the responsibility of operations management, as assisted by health and safety professionals in the field and environmental professionals at head office.

Consultation with Workers' Compensation Board

In order to respond to emergency situations involving a gas leak, natural gas company employees must often make critical decisions to protect public safety. To enhance its response measures for gas leaks, PNG worked with a tripartite group consisting of representatives from labour, gas companies and the B.C. Workers' Compensation Board safety officers to develop a "variance" to standard provincial health and safety regulations. The variance allows gas company employees to follow a predetermined "logic sequence" to adopt the correct response measures in an emergency situation. This logic sequence is being studied by other provinces and the Canadian and U.S. gas associations.

Stakeholder Consultation on Critical Watershed Concerns

From time to time, PNG must conduct maintenance or pipeline rehabilitation work in very sensitive watersheds. This often raises a number of issues of critical concern to stakeholders, and merits an especially comprehensive approach to stakeholder consultation. During 1996 and 1997, in the Kasiks and Khyex River Valleys, PNG initiated a comprehensive watershed stakeholder consultation program. This consultation was instrumental in developing a habitat protection plan that addressed issues raised by stakeholders.

Progress on 1995 Plans

Fisheries Assessments for Stream Crossings

- **Update fisheries assessments for pipeline crossings of fish-producing waters**

PNG has been systematically conducting fisheries assessments of all its major stream crossings. Over the past three years more than 50 miles of pipeline and several watersheds have been assessed.

Stream Crossing Relocations

- **Relocate selected pipeline crossings away from salmon spawning areas**

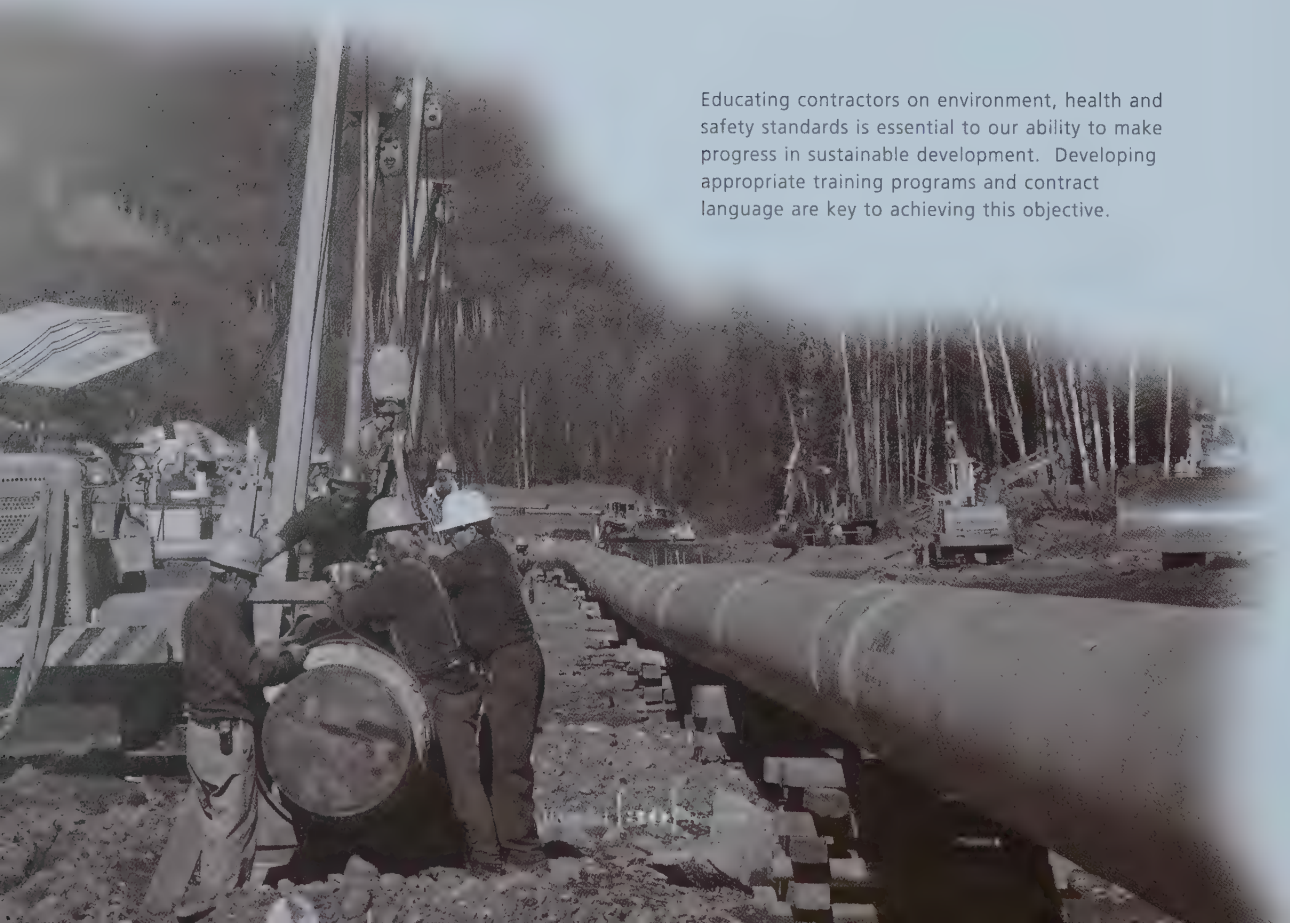
PNG has assessed the risk and habitat sensitivity of many of its pipeline crossings, and is systematically re-routing high risk crossing to avoid sensitive fish habitat. In the Khyex River Valley, early fishery assessment work identified three existing crossings which pass through rich spawning habitat in Arden Creek. To eliminate the possibility of habitat damage from future pipeline maintenance work, the company will de-commission these crossings and re-route the pipeline away from the spawning area. Seven other stream crossings have been, or are scheduled to be, avoided by drilling replacement pipelines under the watercourses.

Future Plans

Spill Training PNG will develop a spill training program in 1998. The program will focus on providing front-line staff with the skill sets to prevent, properly report, and respond to harmful spills.

Partnership to Reduce Sulphur Emissions PNG is extending its gas distribution system in the Fort St. John area in order to provide fuel gas to a number of raw natural gas production facilities. This clean fuel gas distribution program will result in a reduction in sulphur emissions in the Fort St. John area.

Environmental Provisions in Contracts PNG plans to develop standard language for environmental protection provisions in construction contracts.



Educating contractors on environment, health and safety standards is essential to our ability to make progress in sustainable development. Developing appropriate training programs and contract language are key to achieving this objective.

Current Operations

Environmental Audits During 1996 and 1997, Union Gas continued to refine its Environmental Audit program. In 1996, it adopted the use of environmental auditing software, including a database of current environmental legislation. This has assisted the company in developing audit protocols tailored to the various types of company facilities. Union Gas has also implemented a system to follow up with facilities after audits have been conducted. This system tracks actions that have been taken.

Seven comprehensive facility audits were conducted between 1996 and 1997. Compared to the previous two year period, the number of findings has decreased, which in part reflects an increasing environmental awareness on the part of operations management.

Pilot Emission Reduction Trading (PERT) Union Gas has been actively participating in the PERT project in Ontario since 1996. PERT is a multi-stakeholder initiative that is evaluating emissions trading as a tool to assist in the reduction of air pollutants such as nitrous oxides, volatile organic compounds and greenhouse gases.

To date, one trade has occurred, seventeen other projects have been reviewed and nine of them have been registered for sale on an electronic trading registry. In addition, progress is being made as part of the pilot to develop trading rules and resolve issues.

Brant Prairie Project Union Gas recently constructed a new Customer Service Centre in Brantford, Ontario using a new approach to landscaping: the land is being restored to its historic prairie/oak savannah ecosystem. The restoration will take up to five years to mature and involves the introduction of native turtles and butterflies, as well as the planting of historic native vegetation. By foregoing traditional manicured lawns and flower beds, Union has eliminated the use of herbicides and pesticides, and the need for lawn mowing and watering.

Union Gas Limited (Union Gas)

Management of EH&S across the Union Gas system is facilitated by EH&S professionals throughout Union's service areas.

** Union Gas is the product of a 1997 amalgamation of Union Gas Limited and Centra Gas Ontario Inc.*

Disposal of Odourant Tanks

Union Gas is supporting the development of a new thermal oxidation treatment facility for mercaptan odourant wastes in Cornwall, Ontario. Mercaptan, a sulphur-based petroleum product gives natural gas its distinct odour, thereby assisting in the detection of natural gas leaks. The Cornwall facility will thermally destroy all forms of mercaptan waste, with minimal release of sulphur oxides (SO_x) emissions. Heat produced by the facility will also be made available for other uses.

Energy Efficiency at New Offices

The construction of two new offices in Cornwall and Thunder Bay has provided Union Gas the opportunity to apply modern, energy-efficient technologies. The offices were designed and constructed to meet the energy conservation standard, ASHRAE 90.1, a standard developed by the internationally-recognized American Society of Heating, Refrigeration and Air Conditioning Engineers. The boiler technology used exceeds the ASHRAE standard by approximately 15%. In the next edition of our Review, we will report on the actual CO_2 equivalent emission reduction achieved by these technologies.

Odourant Spill at Sault Ste. Marie

On August 27, 1997, a spill of approximately 160 gallons of mercaptan occurred at an odourant injection station on the Union Gas system in Sault Ste. Marie. A gasket failure that allowed odourant to leak onto the dirt floor of the building caused the spill. While health hazards associated with the spill were minimal, the surrounding community was affected by the strong smell.

Odourant spills of this magnitude are rare and therefore clean-up expertise is limited. In this case, clean-up involved construction of a containment building, treatment of air in the building, steam injection into the soil, soil removal, bioremediation and groundwater monitoring. In addition, a new odourizing station was built with a secondary containment tank. Following this incident, similar odourizing stations on the Union Gas system were checked to minimize the likelihood of this event occurring in the future.

Histoplasmosis Avoidance In 1996, two contractors developed histoplasmosis (lung disease) that may have been caused by exposure to bird excrement during the installation of gas services. As a result, Union developed and implemented a policy that addresses this risk by defining predisposing factors and causes, and requiring preventative measures and pre-work planning.

Union Gas has developed a variety of programs to actively promote energy efficiency and to reduce or alter customer energy consumption decisions and patterns.

Demand Side Management

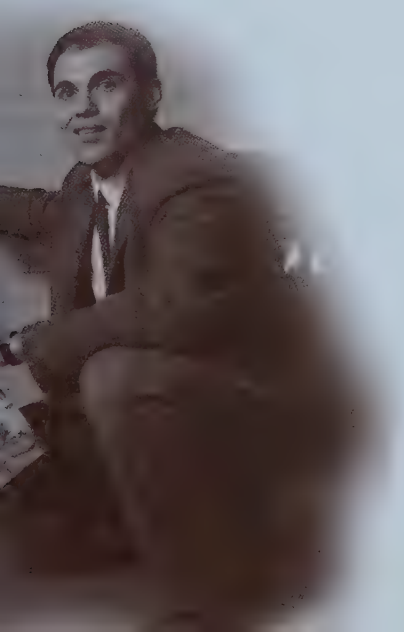
Demand side management (DSM) refers to activities that promote energy efficiency and encourage consumers to reduce or alter their energy consumption. At Union Gas, these programs are an integral part of the company's business and, in 1996 resulted in savings of more than 7.8 million cubic metres of natural gas (305,370 GJ). This energy savings reduced greenhouse gas emissions by 14.7 carbon dioxide equivalent kilotonnes. By the year 2000, the total greenhouse gas emission reductions attributable to Union Gas DSM programs are estimated to be 170 carbon dioxide equivalent kilotonnes (equivalent to 23% of company greenhouse gas emissions from operations in 1990).

Progress on 1995 Plans

Low Level PCB Contamination

- **Investigate sites for low level PCB contamination**

Union Gas has established a database to track systematic testing of liquids removed from drips. A drip is an engineered drop in the pipeline to collect trace liquids and lube oils. Where testing shows the presence of PCBs in the liquids at the drip site, past experience suggests potential for contamination in the soil beneath the drip.



PCBs may be present in the pipeline as a result of the past use of PCB-based lube oils. Drip sites are now routinely investigated whenever work is taking place that could result in disturbance of the soil or exposure to employees.

Property Transactions - Environmental Screening

- **Implement screening procedures for property transactions**

Union Gas has implemented an environmental screening procedure for property transactions. The procedure will be streamlined and revised in 1998.

Demand Side Management

- **Develop and upgrade existing demand side management programs**

Union Gas is actively promoting eight new energy efficiency programs through a dedicated DSM department. Using information materials, training sessions, incentives and promotions, these programs guide the Company to meet customers' energy management needs, and identify and address barriers to energy efficiency in each market sector.

Hazardous Waste Management Procedures

■ **Implement revised hazardous waste management procedures**

Waste Management Procedures, including those for hazardous waste, were developed in conjunction with a 1997 new Environmental Manual, which also includes procedures for handling spills, suspect soils and environmental issues for contractors.

Future Plans

Contaminated Site Management

Union Gas will initiate a project in 1998 to develop a comprehensive contaminated site management plan. This initiative will ensure that Union Gas is up-to-date in its environmental preparedness and due diligence for the contaminated sites for which it has assumed ownership over the years. This will also assist in minimizing or eliminating environmental risk and liability associated with exposure and migration of contaminants, and in developing a suitable cost-effective environmental management plan for each site.

Westcoast Energy International Inc. (Westcoast International)

In pursuing international projects, Westcoast Energy International Inc. relies on the environment, health and safety expertise of consultants and the corporate Environment, Health and Safety and Sustainable Development Department.

Westcoast Energy International is pursuing numerous opportunities in energy markets abroad. Potential projects are evaluated against a number of criteria including consistency with Westcoast Energy's commitment to sustainable development and local environmental and socio-economic concerns.

Current Operations

China - Power Projects In China, Westcoast Energy International is pursuing a number of energy projects. For example, one project under discussion involves the generation of electricity by burning blast furnace gas in a conventional boiler-steam turbine generator configuration. This gas is the by-product of a manufacturing process and is exhausted to the atmosphere. Using the gas to run a turbine would result in lower emissions and provide an economical source of electricity for the region.

Australia - Eastern Gas Pipeline Project Westcoast Energy International has a joint venture with BHP Petroleum Pty Ltd. to construct and operate a 740 kilometre pipeline between two states in Australia. The project has carried out the most rigorous environmental assessment of any pipeline in Australia, and the approval process is now entering its final stages.

The major environmental/land use concerns of this pipeline include aboriginal title, soil stability, native grasslands, State Parks, stream and river crossings, and weed control. Westcoast Energy International has recently finalized, and received regulatory approval for, a detailed "Environmental Management Plan" to address these and other issues. The plan includes construction guidelines, personnel training in environmental and cultural issues, environmental inspection and supervision, environmental auditing and monitoring, and continued consultation and liaison with stakeholders.

Mexico - PEMEX SCADA Project
Westcoast Energy International, in partnership with El Paso Natural Gas, is providing management services for the automation of the Mexican natural gas pipeline network of Pemex Gas y Petroquímica Básica, a unit of the state petroleum company, Petróleos Mexicanos. Through refined gas management, efficiency improvements, and general automation, this project will help to reduce greenhouse gas emissions from the Pemex pipeline system.

Current Operations

New Environment, Health, and Safety Management Structure

In 1996, as a result of the "Change To Win" restructuring process, an Environment, Health and Safety group was established primarily in Fort St. John. Located in Northeast B.C., this group is well situated to be better able to respond to the day to day needs of the majority of Pipeline and Field Services operations.

Environmental Audit Program

In 1996, Pipeline and Field Services conducted audits of the Station 7 Area, Kobes Creek Area, Buckinghorse Gas Plant/Sikanni Gas Plant, Station 3 Area/Pacific Northern Gas Ltd., and Pine River Gas Plant. In 1997, in-house environmental professionals conducted site reviews at selected facilities in the Fort St. John, Grizzly Valley and McMahon gathering areas including Compressor Stations 1 and 2 in Northeastern B.C. and the Fort Nelson gas plant.

No major unaddressed environmental issues were identified during these audits. Minor issues have been dealt with through on-going maintenance programs.

Methane Emissions Reductions

Over the past two years, emissions of methane, a greenhouse gas, have been reduced as a result of several measures. Compressor station shut downs have been minimized to eliminate emissions that would be associated with re-starting the compression turbines. Re-starting involves use of gas pipeline pressure to bring the turbines up to operating speeds; the natural gas used in this process is subsequently vented. In addition, two stations have been upgraded with new technology that eliminates the need to release methane under these circumstances. In the transmission pipeline system, a portable "pumpdown" compressor has been used wherever feasible to recover methane. This methane would otherwise be vented to the atmosphere when pipeline sections are isolated and emptied to allow replacement or maintenance.

New Safety "Working Alone" Policy

Pipeline and Field Services have developed a new policy to address the hazards of working alone in an industry characterized by the constant risk of hydrogen sulphide poisoning, an accident which would preclude self-rescue. The policy defines the circumstances where a person may work alone, and those that require a minimum of two workers. It also prescribes standards to reinforce the safety of workers travelling from one remote location to another.

Westcoast Energy Pipeline and Field Services Divisions (Westcoast Pipeline and Field Services)

Environment, health and safety is the responsibility of Area and Regional managers who are in turn supported by the group of environment and health and safety professionals formed in 1996, to work out of Fort St. John in Northeastern B.C.

Wild Bird Trust of British Columbia

The Wild Bird Trust of British Columbia operates a wildlife sanctuary in North Vancouver, B.C. Its 77 acres are home to rare and unique bird species. Until recently, over half of the sanctuary was isolated by a tidal canal and inaccessible to visitors. In 1997, Pipeline and Field Services donated 240 feet of 36 inch pipe and assisted in the construction of a footbridge across the canal.

Encroachment Resolution Plan

In January 1997, Pipeline and Field Services and Federated Pipe Lines (who share a portion of the Westcoast right-of-way) agreed to the implementation of an encroachment resolution plan. The objective of this plan is to maintain public safety by addressing uses of the pipeline right-of-way that may put the public or pipeline at risk. Unacceptable right-of-way uses may include, for example, homes, wells, sheds, fences, patios and parking lots.

In 1997, the plan was tested with a pilot project in the Red Bluff area, near Quesnel, B.C. Pipeline and Field Services completed an inventory of all properties in the area and evaluated each property against the encroachment guidelines. Where an encroachment presented a possible safety hazard, Westcoast representatives worked closely with the appropriate landowner or tenant to address the encroachment.

Westcoast Energy's desire to act fairly and equitably resulted in several visits to the affected landowners. These visits provided an opportunity to collect information, gain insight into the needs and interests of landowners, clarify Westcoast's requirements with the landowners and demonstrate a commitment to fair and reasonable resolutions. This cooperative approach was essential to minimizing any disruptions caused by the initiative.

Based on the success of this pilot program, further implementation of the encroachment resolution plan is scheduled for 1998 and beyond.

Progress on 1995 Plans

Purchasing Policies

- **Establish and finalize purchasing policies**

Over the past two years, environmental personnel have worked with Westcoast's Purchasing Department to refine green purchasing policies originally established in 1995. Through these policies the company has, over time, been phasing out the use of halon, conventional batteries, mercury flow recorders, and paints with hazardous components.

Environmental Management Information System

- **Complete and implement EMIS**

By the end of 1997, the Pipeline and Field Services in B.C. had completed the first phase of the Environmental Management Information System. A prime feature of this system is the ability to track chemical usage quickly at different facilities, generate inventories of specific chemical components of purchased products and provide summary information on materials containing these chemicals.

Halon Replacement

- **Eliminate halon in fixed fire suppression systems**

Pipeline and Field Services are managing halon 1301 fixed fire extinguishing systems in accordance with the B.C. Ozone Depleting Substances Regulation. Phase-out of halon 1301 has been evaluated on a site-by-site basis with cost estimates provided for changeout. As a result of this program, 689 kg of halon 1211 have been eliminated from portable fire extinguishing units during the past four years.

Liquids Recovery

- **Complete hydrocarbon liquids management projects at booster stations**

In 1993, in consultation with the B.C. Environment, Pipeline and Field Services initiated a project to eliminate routine flaring of pipeline hydrocarbon liquids. Over the past four years, Westcoast has installed equipment at a total of eight gathering system sites, capable of removing these liquids from waste streams prior to flaring, for collection and sale.

NO_x Emission Management

- **Implement NOx emissions management plan in the Taylor, B.C. airshed**

NO_x emissions have the potential to impact negatively on local air quality in urban areas and some specific airsheds such as the valley area at Taylor, B.C. In this regard and in response to concerns which were expressed by B.C. Environment, Pipeline and Field Services initially agreed to apply a blanket prescription to all of their B.C. facilities. However, as our understanding of the issue grew, Pipeline and Field Services Divisions have adopted an approach which tailors the response to the local air quality conditions and the potential for impacts to local air quality.

NO_x Emission Management (cont'd)

The McMahon Gas Processing Plant together with Compressor Station 1 are located in the Taylor airshed, a valley which is shared with a number of other industrial facilities, all of which emit NO_x and other air emissions. As a major contributor of NO_x to the airshed, Westcoast is an active member of the Taylor Airshed Management Committee, has participated in the modeling of NO_x in the airshed, and conducts ambient air quality monitoring at two locations. To reduce our emissions of NO_x the compressor station has retrofitted one compressor engine with NO_x control technology and is changing its operating procedures. These steps have been taken based upon the principals of tailoring the response to address the specifics of the local air quality conditions and seeking to balance the economic and environmental constraints faced by Westcoast. A new NO_x Management Plan which is based upon these principals was filed with B.C. Environment in late 1997.

Pollution Prevention Plan

- **Develop pollution plan at Fort Nelson, B.C. plant**

Over the past several years, Westcoast has worked with B.C. Environment on a pilot pollution prevention demonstration project at Fort Nelson Gas Plant. The resource-intensive nature of this project, the reorganization of corporate and government participants, and unresolved process and policy issues have delayed the project's completion for Pipeline and Field Services as well as for the other companies involved.

Boundary Lake Gas Processing Plant Decommissioning

- **Decommission Boundary Lake, B.C. plant**

The gas processing plant portion of the Boundary Lake facility was decommissioned during the fall of 1996. All buildings, including foundations, and most underground piping were removed. Some surface remediation was conducted and ground water is being monitored. Full-scale remediation will be considered when the site is no longer in use and is fully decommissioned.

Spill Response

- **Expand spill response capability**

In the fall of 1995, spill response equipment was purchased, and eight regional kits for spills to land, or small streams were assembled. In addition, an 18 foot trailer equipped with spill response equipment suitable for larger spills has been stationed at the Charlie Lake (Fort St. John) operations centre.

Future Plans

Pollution Prevention Westcoast Pipeline and Field Services Divisions remain committed to pollution prevention planning as a concept and expect to have their Fort Nelson plan completed during 1998.

Fall Protection To address new workplace safety regulations, Pipeline and Field Services Divisions will be implementing a fall protection program that will encompass site assessments, development of a site specific fall protection plan, the purchase of fall prevention equipment and focused training for employees.

Emergency Preparedness The Pipeline Division will integrate its emergency response plans into the newly developed Geographic Information System (GIS) in order to facilitate the dissemination of information required for planning and responding to emergencies. This integrated system is expected to be completed during 1998.

The integration of emergency response plans into our Geographic Information System will assist Westcoast to better plan and respond to energy pipeline emergencies.

Westcoast Gas Services Inc. (WGSI)

Environment, health and safety at WGSI is the responsibility of facility managers who are in turn supported by the Fort St. John based group of professionals who also serve the Pipeline and the Field Services Divisions of Westcoast Energy Inc.

Current Operations

Jedney Gas Processing Plants - Acid Gas Reinjection

In 1997, Westcoast Gas Services Inc. (WGSI) brought the second phase of its Jedney gas processing plant on line. This plant has significantly reduced emissions of sulphur and greenhouse gases due to the fact that the acid gas by-product (primarily hydrogen sulphide and carbon dioxide) is reinjected into isolated gas reservoir formations.

Improved Pigging Practices

For a period of two months during 1997, hydrates were spilled to the ground during daily pigging operations that were intended to clean the Jedney raw gas gathering pipeline of these waste liquids. Hydrates are formed when, under pipeline operating temperatures and pressures, methane binds with water that may be present to form a slush or ice like material. This material is in turn contaminated with small amounts of oils and rust that may be found in the pipeline.

Pigging is the process of moving a pig through the pipeline in order to clean, inspect or service the pipe. In this case the pig was a metal plug with neoprene scrapers which was sent from a sending barrel to a receiving barrel. Because free water is not generally found in the gas accepted into gathering pipelines, the presence of hydrates was not anticipated in the original design and the receiving barrels were constructed with inadequate liquid containment for the volumes of hydrates actually encountered.

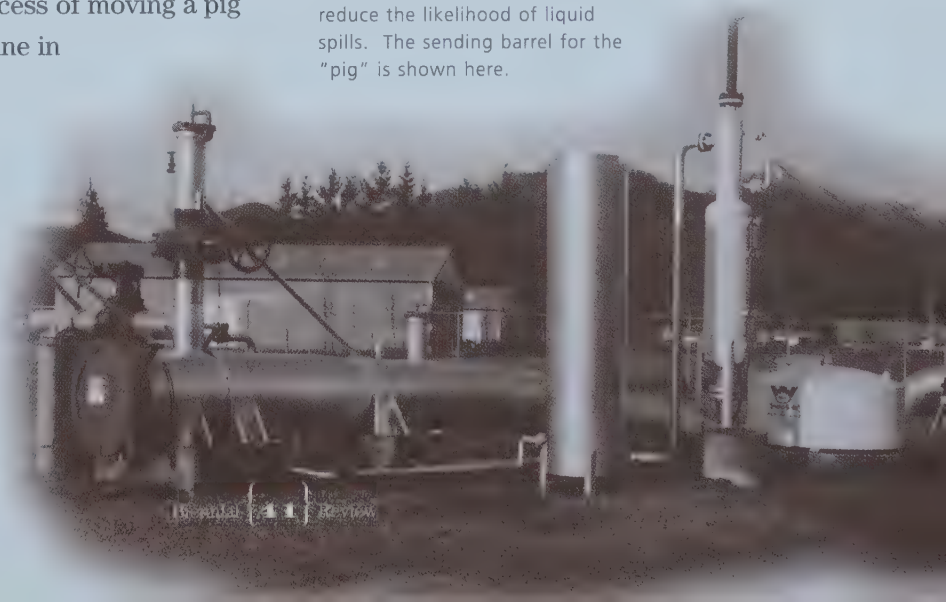
Due to the spill, WGSI was cited in the publicly released Significant Non-Compliance Report. As a result of this experience, receiving barrels on all of WGSI's gathering pipelines were immediately upgraded to increase liquid containment capacity and modified to reduce the risk of spills in future.

Future Plans

Oil Recycling at Highway Plant

WGSI will install oil filtration recycling equipment at the Highway Plant.

Westcoast Gas Services Inc. is modifying its pigging practices to reduce the likelihood of liquid spills. The sending barrel for the "pig" is shown here.



Current Operations

Environment and Safety Audit Program

Environmental and safety practice audits are conducted once every two to three years at Westcoast Power cogeneration facilities. During the last two years, no significant shortcomings were identified in the audits conducted.

Reductions in Sulphur Emissions at the McMahon Cogeneration Plant

As of September 1997, modestly high sulphur fuel gas received from the McMahon plant is now being processed by Solex Gas Liquids to remove marketable liquids from the gas. This process also removes any residual sulphur that remains in the gas, thereby reducing sulphur emissions from the McMahon Cogeneration Plant.

Reductions in NO_x emissions at Fort Frances Plant

Modifications were made at the Fort Frances Plant in 1995 to the steam injection system. This resulted in a reduction of NO_x emissions from approximately 70 parts per million (ppm) to approximately 50 ppm.

Halon Release

In 1996, Westcoast Power experienced an accidental release of halon from one of its automatic fire extinguishing systems located near equipment which caused the system to overheat and release on high pressure. Halon is an ozone depleting substance and in B.C. may not be released, except where it is evident that a company has exercised due diligence. Following the incident, the halon fire extinguishing system was replaced with FM200, a fire extinguishing substance with a zero ozone depletion factor. As well, the FM200 storage containers were relocated away from nearby equipment.

Future Plans

Reduction of NO_x at the Lake Superior Cogeneration Plant

Measures are planned to reduce NO_x emissions at the Lake Superior plant. Two options are being considered: dry low emissions (DLE) technology, and water injection.

Westcoast Power Inc. (Westcoast Power)

Environment, health and safety (EH&S) programs are the responsibility of each Westcoast Power facility. At the Fort Frances and McMahon plants which are operated by Abitibi Consolidated and Westcoast Energy respectively, environment, health and safety is managed as an integral function with the host plant. The Operating Committees, which are made up of representatives of the owners, oversee the management of each of the plants.

Implementation of Environmental Technology at New Plants All new plants will be designed to incorporate state-of-the-art environmental technology, including low NO_x emissions controls, non-ozone depleting fire protection systems, non-toxic water wash chemicals and high efficiency combustion turbines.

Calculating CO_2 Credits Westcoast Power plans to undertake a study to determine the CO_2 emissions savings of three of its cogeneration facilities: Lake Superior Power, Fort Frances, and Whitby. This information will enable these facilities to participate in market or government initiatives for CO_2 emission credit trading.

Glycol Spill Containment A glycol spill containment system will be installed around the inlet heating facilities at the Fort Frances Cogeneration Plant to prevent glycol spills from reaching the facility's effluent treatment plant. Glycol upsets the aeration stage of the effluent treatment process.

Corporate Performance Data

Environmental Expenditure Summary

Westcoast Energy is committed to collecting and presenting a comprehensive and accurate record of our environmental expenditures. In this Review, we take a first step and present the cost of our environmental expenditures (i.e., the direct costs associated with environmental staff and programs). In future years, we intend to develop systems to capture and report environment, health and safety expenditures in our operating activities as well as environmental, health and safety related capital costs.

Environmental expenditures have remained steady or increased slightly among the companies reporting. Annual environmental expenditures are tied to annual environmental capital investments and may increase or decrease based on the level of new facility construction in a given year.

Environmental Expenditures

	1996	1997
Centra Gas British Columbia Inc.	$161,500	$137,600
Centra Gas Manitoba Inc.	$96,000	$103,000
Pacific Northern Gas Ltd.	$85,000	$88,000
Union Gas Limited	$1,160,800	$1,184,400
Westcoast Energy Pipeline and Field Services Divisions	$1,941,080	$1,543,199
Westcoast Gas Services Inc.*	n/a	n/a
Westcoast Energy International Inc.	n/a	n/a
Westcoast Power Inc.	$33,071	$33,784
Westcoast Energy Corporate	n/a	$1,110,000

* Environmental, health and safety issues affecting Westcoast Gas Services are managed by the Pipeline and Field Services Divisions' Environment, Health and Safety shared services groups.

Sustainable Development Review Key Performance Indicators (KPI)

Environmental and Health and Safety Training Beginning this year, Westcoast Energy is presenting consolidated data on the average number of hours of health and safety training per full-time employee. A consolidated figure is not available for previous years. Therefore, this year's figure will represent the baseline in future editions of this Review.

Environmental and Health and Safety Training

All environmental training and mandatory health and safety training (Average number of hours per full-time employee)

	1997
Westcoast Energy Inc.	8.7

Motor Vehicle Accidents - Frequency Rate While Centra Gas Manitoba has shown consistent improvements to its Motor Vehicle Accident Frequency Rate over the last three years, the overall accident frequency for the Westcoast Energy group of companies has experienced an upward trend. Accidents that occur during "backing up" continue to be the major and largely preventable cause. However, most of the Westcoast Energy group of companies have instituted additional driver skill enhancement training. Improved performance is therefore expected in our next Review.

Motor Vehicle Accidents - Frequency Rate

Preventable Accidents per 1,000,000 kms. (Any damage incurred or injury involved, while operating a company vehicle at any time.)

	1995	1996	1997
Centra Gas British Columbia Inc.	3.03	6.07	1.73
Centra Gas Manitoba Inc.	4.52	3.91	2.89
Pacific Northern Gas Ltd.	2.47	1.81	5.61
Union Gas Limited	2.46	2.35	3.09
Westcoast Energy Pipeline and Field Services Divisions	3.72	2.78	3.89
Westcoast Gas Services Inc.[1]	n/a	n/a	n/a
Westcoast Energy International Inc.[2]	n/a	n/a	n/a
Westcoast Power Inc.	0	0	0
Westcoast Energy Inc.	**2.79**	**2.83**	**3.30**

1 Westcoast Gas Services was not operational until 1995 with the purchase of the Buckinghorse Gas Plant. Jedney and Highway Gas Plants came on stream mid-1997.

2 Westcoast Energy International was incorporated in 1994 and is primarily engaged in development activities so some data is not applicable or not available

Lost Time Accidents - Frequency Rate

In keeping with a corporate emphasis on workplace safety, the Westcoast Energy group of companies have instituted or enhanced their safety management systems during the last two years. Particular attention has been paid to the involvement of the facility health and safety committees in managing workplace health and safety issues. In some instances, joint senior management and employee health and safety policy committees have been established. These actions have resulted in a steady decline in the Lost Time Accident Frequency Rate.

Lost Time Accidents — Frequency Rate

Number of Full Time Employees LTAs per 200,000 hours.

	1995	1996	1997
Centra Gas British Columbia Inc.	2.87	4.32	0
Centra Gas Manitoba Inc.	3.36	2.94	1.41
Pacific Northern Gas Ltd.	2.11	0	1.35
Union Gas Limited	1.51	1.00	0.61
Westcoast Energy Pipeline and Field Services Divisions	0.78	0.65	0 68
Westcoast Gas Services Inc.	n/a	n/a	0
Westcoast Energy International Inc.	n/a	n/a	n/a
Westcoast Power Inc.	1	1	0
Westcoast Energy Inc.	**1.61**	**1.26**	**0.65**

Permit Exceedences

The Westcoast Energy companies included in this performance indicator are authorized by their provincial governments for permitted discharges to the environment (air, water and land). These permits contain conditions for operations, monitoring and performance reporting. Failure to meet any of these conditions constitutes a contravention of the permit. In the event that permit conditions are not met, the Ministry is notified regarding the details surrounding the incident. Over the past three years, only Westcoast Pipeline and Field Services have exceeded the levels allowed in its permits. The increase in contraventions between 1996 and 1997 is in part due to problems which resulted in high pH levels in effluents at the McMahon gas plant. These problems have now been addressed with design upgrades at the effluent plant.

Permit Exceedences

Permit exceedences that are reportable pursuant to the applicable provincial law.

	1995	1996	1997
Centra Gas British Columbia Inc.	0	0	0
Pacific Northern Gas Ltd.	0	0	0
Westcoast Energy Pipeline and Field Services Divisions	21	23	36
Westcoast Gas Services Inc.	0	0	0
Westcoast Power Inc.	0	0	0

Air permit contraventions increased from 1995 to 1997 as a result of both increased gas volumes and increased raw gas sulphur concentrations at the Pine River and McMahon Gas Plants. This resulted in plants operating closer to the limits of their permits governing sulphur dioxide emissions with a resulting greater risk of contraventions when there are operational upsets. Westcoast Energy is currently working to improve the operational reliability of these facilities.

Spills The majority of the spills reported by Westcoast Energy group of companies were minor, easily contained and did not result in significant impacts on the local environment. However, in all cases where spills occur, Westcoast Energy companies contain the spilled material, remediate the site and report the spill to the appropriate regulatory authorities.

Spills Spills that are reportable pursuant to the applicable provincial law.

	1995	1996	1997
Centra Gas British Columbia Inc.	0	0	0
Centra Gas Manitoba Inc.	0	0	0
Pacific Northern Gas Ltd.	not avail.	2	6
Union Gas Limited	26	14	18
Westcoast Energy Pipeline and Field Services Divisions	29	12	23
Westcoast Gas Services Inc.	0	0	1
Westcoast Energy International Inc.	n/a	n/a	n/a
Westcoast Power Inc.	0	0	1

In an effort to minimize spills, Westcoast Energy employees receive training in spill prevention and management, and further training is planned. Recent training has increased employee understanding of regulatory reporting requirements, and in part explains why the number of reported spills in 1997 is higher than in 1996.

Sulphur Emissions Sulphur is a by-product that is created when natural gas is processed. During this process, a minimum of 95% to 99% of sulphur in the raw gas stream is converted to elemental sulphur, depending upon the sulphur content of the raw gas supplying each processing plant. Most of the remaining sulphur is emitted as sulphur dioxide.

Sulphur Emissions Sulphur emissions in tonnes per year.

	1995	1996	1997
Westcoast Energy Pipeline and Field Services Divisions *	11,996	12,539	12,021
Westcoast Gas Services Inc. *	14	4	274

* Westcoast Pipeline and Field Services and Westcoast Gas Services are the only companies in the Westcoast group which undertake gas processing and sulphur recovery.

When examined on an emissions per unit throughput basis, Westcoast Energy's sulphur emissions have been decreasing for more than two decades. This trend is expected to continue as Westcoast Energy develops additional processing plants which incorporate acid gas reinjection technology.

Westcoast Gas Services' sulphur emissions increased in 1997 due to commissioning of the Highway Gas Plant and Jedney Gas Plant expansion.

We would appreciate your comments or suggestions concerning the Westcoast Energy Sustainable Development Review.

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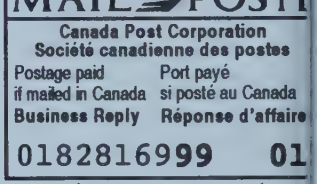

GHG Emissions Per Unit Throughput

Greenhouse gas emissions from Westcoast Energy group of companies are increasing. This is primarily due to higher levels of market demand for natural gas, which has led to an expansion of Westcoast Energy operations. Increased demand has resulted in part from the preference for natural gas in replacing other higher carbon fossil fuels such as coal and oil to reduce greenhouse gas emissions at the end use market. However, when measured on a per unit throughput in CO2 equivalent tonnes basis, greenhouse gas emissions for the Westcoast Energy group of companies show a decline of 18% between 1990 and 1997, reflecting a variety of measures to improve system efficiency and reduce fugitive (i.e., unintended) emissions of methane.

GHG Emissions per Unit Throughput

Emissions in tonnes CO2 equivalent per million cublic metres for gathering, processing, transmission and distribution operations only.

	1990	1997
Centra Gas British Columbia Inc.	262	60
Centra Gas Manitoba Inc.	23	26
Pacific Northern Gas Ltd.	146	126
Union Gas Limited	38	30
Westcoast Energy Pipeline and Field Services Divisions	279	226
Westcoast Gas Services Inc.	n/a	128
Westcoast Energy International Inc.	n/a	n/a
Westcoast Power Inc.	n/a	n/a
Total for Westcoast Group	122	100

Environment, Health, Safety and Sustainable Development Publications Available from Westcoast Energy

Westcoast Energy believes that information and education are essential to making progress in addressing environment, health, safety and sustainable development issues and concerns. That is why we have developed a variety of publications to explore further some of the themes and issues discussed in our *Progress in Sustainable Development Review* document.

Available publications include:

- Westcoast's *Voluntary Challenge and Registry Greenhouse Gas Action Plan*
- Westcoast's *Environment, Health and Safety Policy Statement*
- A series of issue and technical papers on climate change

To request a copy of any of these materials, please contact us at:

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Westcoast Energy Inc.
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Vancouver, BC
V6E 3K9

Telephone: (604) 691-5062
Fax: (604) 691-5150

www.westcoastenergy.com

Guiding Principles for Sustainable Development

Westcoast Energy Inc. is committed to Sustainable Development. We have established Guiding Principles to assist us in realizing the long-term environmental and economic responsibilities and opportunities that Sustainable Development presents, within our organization and in the communities that we serve. We are confident that the thoughtful and creative application of these principles to our business activities will secure us a prominent role in the energy services future, and ensure the corporation's competitiveness and long-term goals are supported and advanced.

INTEGRATED PLANNING AND STAKEHOLDER CONSULTATION

Sustainable development as a corporate priority. Environmental and socio-economic considerations will be integrated into all aspects of corporate activities, including the planning, construction, operation and decommissioning of facilities.

Shared responsibility. Decision-making with respect to ongoing operations and project development will provide for the participation of all relevant stakeholders.

Information exchange. Relevant information relating to environmental and socio-economic matters will be exchanged with stakeholders and communities in an ongoing and timely manner.

Life cycle costing. The full range of costs incurred by the company and society over the useful life of the products or services being used or offered will be identified and considered in the planning, construction, operation and decommissioning of facilities.

ENERGY AND MATERIALS CONSERVATION AND MANAGEMENT

Precautionary approach. When impact assessments demonstrate a strong probability of serious and lasting socio-economic or environmental effects, the project will be modified such that impact mitigation will be ensured.

Energy and material efficiencies. Energy and material consumption will be optimized by designing efficiencies into process and facility development and operation, and applying pollution prevention principles to manage waste streams.

Product and service demand management. Products and services offered to our customers will be developed and managed in a manner that puts priority on minimizing energy consumption, emissions and other environmental effects, and optimizing energy consumption at the point of end-use.

Ecosystem integrity. Healthy ecosystems are understood to be a prerequisite to the strength and long term well-being of the environment and economy.

SCIENCE AND TECHNOLOGY

Scientific rigour. Decision-making relating to environmental protection will be based on the best information and scientific understanding available.

Appropriate technologies. Initiatives will be undertaken to identify, research, develop and integrate technologies that support improved environmental performance and competitiveness.

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